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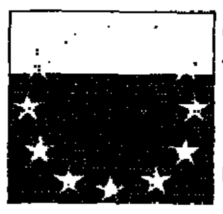

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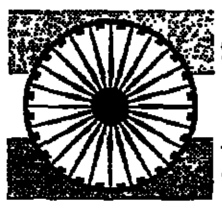

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FINANCIAL TIMES

Europe's Business Newspaper — WEDNESDAY MARCH 30 1994 — D8523A

German rail group fined $12m over abuse of monopoly

The German state rail company, Deutsche Bahn, is to be fined Ecu11m ($12.3m) by the European Commission for using cut-price rail tariffs to encourage freight traffic to use the German port of Hamburg.

The Commission said the fine, the largest so far levied on a rail group, had been imposed *because Deutsche Bahn had abused its monopoly* position, distorting the market by diverting traffic away from Belgian and Dutch ports. **Page 20**

KLM Royal Dutch Airlines has raised Fl 1.19bn ($625m) – nearly Fl 200m higher than it originally expected – through a global public offering of ordinary shares, which closed heavily oversubscribed. **Page 21**

Pirelli, the Italian tyres and cables group which has completed a two-year restructuring, announced plans for L1,000bn ($611m) of new funding aimed partly at a relaunch of its core products on international markets. **Page 23**

Presidential candidate chosen: Ernesto Zedillo, *a former budget and education minister*, became presidential candidate of Mexico's ruling Institutional Revolutionary party after his chief *rival took himself out of contention.* **Page 6**

British Aerospace disclosed that it has aircraft leasing obligations of £2.9bn ($4.3bn), compared with income that it expects to receive on sub-leases to airlines of £1.8bn. **Page 21**

UK aid rules attacked: Three leading British industrialists accused the government of undermining their companies' bids for contracts in developing countries by introducing "crazy" aid and trade rules in the aftermath of the Pergau dam affair. **Page 20**

Call for solution to N Korean nuclear row

South Korean president Kim Young-sam called for greater diplomatic efforts to solve the crisis over North Korea's refusal to open its nuclear sites to international inspection. Mr Kim, pictured here speaking at a Beijing press conference after talks with China's Premier Li Peng, appeared to support Beijing's call for patience in dealing with North Korea. His call came as North Korea said it had been "driven into a corner" by international demands on the issue. **Page 4**

Deutsche Bank, Germany's biggest commercial bank, said it would raise its dividend DM1.5 to DM16.50 following a 24 per cent rise in 1993 net profits to DM1.403bn ($816m). **Page 21**

Optimism on US economy: A sharp rise in consumer confidence this month to the highest level in nearly four years indicated the US economy is again surging ahead after bad weather and other distortions temporarily slowed growth at the beginning of the year. **Page 6**

Gains for Islamic party: Turkey's Islamic-based Refah party delivered a decisive challenge to the country's mainstream secular parties, making widespread gains in municipal elections, including dramatic wins in Istanbul, the biggest city, and Ankara, the capital. **Page 3**

New World Development, Hong Kong property, hotels and infrastructure group, reported a 37 per cent rise in after-tax earnings to HK$1.9bn (US$245m) from HK$1.39bn in the six months to the end of December. **Page 24**

Transplant 'breakthrough': UK scientists *at a Cambridge laboratory* have produced litters of "transgenic" pigs which could provide organs to be used in transplants for humans.

Ciba, Swiss drugs company, said it would soon sign alliances in the US in response to the changing healthcare environment there, in which government and employers want to cut spending by insisting on discounts and buying from groups of companies. **Page 21; Lex, Page 20**

Banana row ends: The European Commission announced that its long-running dispute with Latin American countries over banana imports to the European Union was over. ***Page 20***

US closing figures: US commodities, currencies and share prices cannot appear in this edition of the FT this week because summer time in Europe began a week earlier than daylight saving time in the US.

■ STOCK MARKET INDICES		
FT-SE 100:	3,123.4	(-6.1)
Yield	3.89	
FT-SE Eurotrack 100	1,421.85	(-15.54)
FT-SE-A All-Share	1,579.99	(-0.1%)
Nikkei	19,709.74	(-232.05)
New York lunchtime:		
Dow Jones Ind Ave	3,728.38	(-33.97)
S&P Composite	455.88	(-4.12)
■ US LUNCHTIME RATES		
Federal Funds:	$3\frac{1}{16}$%	
3-mo Treas Bills: Yld	3.58%	
Long Bond	$98\frac{7}{32}$	
Yield	7.036%	
■ LONDON MONEY		
3-mo Interbank	$5\frac{3}{8}$%	(same)
Liffe long gilt future:	Mar $106\frac{12}{32}$	(Mar $107\frac{3}{32}$)
■ NORTH SEA OIL (Argus)		
Brent 15-day (May)	$13.02	(13.12)
■ Gold		
NY Comex (Apr) (2pm)	$385.7	(388.1)
London	$386.15	(389.8)

■ STERLING		
New York lunchtime:		
$	1.4855	
London:		
$	1.4827	(1.4966)
DM	2.4889	(2.5035)
FFr	8.5223	(8.5654)
SFr	2.1186	(2.1269)
Y	154.639	(156.574)
£ Index	79.8	(80.2)
■ DOLLAR		
New York lunchtime:		
DM	1.67305	
FFr	5.72575	
SFr	1.42335	
Y	103.30	
London:		
DM	1.6675	(1.6728)
FFr	5.7095	(5.7233)
SFr	1.4193	(1.4212)
Y	103.60	(104.62)
$ Index	65.6	(65.8)
Tokyo close Y 103.80		

Austria	Sch32	Greece	Dr350	Lux	LFr65	Qatar	QR13.00		
Bahrain	Din1.250	Hong Kong	HK$18	Malta	Lm0.60	S.Arabia	SR11		
Belgium	BFr65	Hungary	Ft185	Morocco	MDh15	Singapore	S$4.30		
Bulgaria	Lw25.00	Iceland	IKr215	Neth	Fl 4.00	Slovak Rp	KBL50		
Cyprus	CC1.10	India	Rs60	Nigeria	Naira50	South Africa	R12.00		
Czech Rp	CZK50	Israel	Shk6.90	Norway	NKr17.00	Spain	Pta225		
Denmark	DKr16	Italy	L3000	Oman	OR1.50	Sweden	SKr18		
Egypt	E£5.00	Japan	Y500	Pakistan	Rs40	Switz	SFr3.30		
Finland	FM14	Jordan	JD1.50	Philippines	Pso50	Syria	S£50.00		
France	FFr9.00	Kuwait	Fils625	Poland	Zl 32,000	Tunisia	Din1.500		
Germany	DM3.50	Lebanon	US$1.50	Portugal	Es225	Turkey	L13000	UAE	Dh12.00

Berlusconi tries to forge coalition government

By Robert Graham in Rome

Media magnate Silvio Berlusconi *yesterday began attempting to* pull together a coalition to govern Italy in the wake of the landslide general election victory achieved by the right-wing Freedom Alliance.

The formation of Italy's 53rd post-war government will be slowed by the differences among the three partners in the Alliance and by the the complex procedures for the new parliament.

A senior member of the outgo*ing government of prime minis*ter Carlo Azeglio Ciampi last night said a "clear majority has emerged from the polls", and "it is now up to that majority to form a new government". But observers said a new government is unlikely to be installed before the end of April.

- ■ Election details — Page 2
- ■ Winning the election was the easy part — *Page 19*
- ■ Editorial Comment — Page 19

A victorious Silvio Berlusconi outside his Forza Italia party's headquarters in Rome — Reuter

The Freedom Alliance – com*posed of Mr Berlusconi's Forza* Italia movement, the populist Northern League of Mr Umberto Bossi and the neo-fascist MSI/National Alliance of Mr Gianfranco *Fini – won 366 of the 630 seats in* the chamber of deputies.

The victory, conceded early yesterday by all of Mr Berlusconi's rivals, marked a major break *with Italy's post-war politi*cal system and offered the prospect of right-wing government pledged to implement radical free-market policies.

Newspapers headlined the sheer scale of Mr Berlusconi's victory over his rivals in the left-wing Progressive Alliance less than four months after he entered *politics. Forza Italia* gained 21 per cent of the vote, the largest single party.

But the press also highlighted the divisions within the three *parties and the veto announced* by Mr Bossi on Mr Berlusconi becoming the next premier. Even Mr Berlusconi's staunchest supporter, the daily Il Giornale, ran *a headline "Government Difficult* for the Freedom Alliance".

The difficulty of finding common ground between the three parties which had formed the Alliance, *for mutual convenience* and without an agreed government programme, knocked the euphoria out of financial markets. Shares on the Milan bourse *fell almost 2 per cent, wiping out* half Monday's gains.

Mr Berlusconi had a three-hour meeting yesterday with Mr Fini to establish the broad lines of *parliamentary alliances.* The media magnate turned politician appeared to be keen to sound out first the MSI/National Alliance. Mr Fini's position is reportedly *easier to square with Forza Italia* even though the MSI does not endorse the free-market economic policies avowed by Mr Berlusconi.

Mr Berlusconi let it be known through his aides that he hoped the League might be persuaded to soften its aggressive opposition to forming a government *with the MSI. On election night* Mr Bossi several times repeated his refusal to associate in government with "the reactionary right". However, contacts are *reported to be underway.*

Among the ranks of the defeated left, there was an atmosphere of profound gloom. The failure of the left to attract a big*ger vote raises doubts about the* future of Mr Achille Occhetto, leader of Democratic Left (PDS), the former communist party. Although the PDS vote held up well at 21 per cent, just behind Forza Italia, the Progressive's electoral strategy was said to have been too defensive.

Major attacked by own party over EU votes

British opposition to enlargement deal ends in bitter recrimination

By Philip Stephens in London and Lionel Barber in Brussels

Mr John Major, the UK prime minister, faced a fresh crisis of confidence in his leadership last night after a compromise deal with Britain's European Union partners over voting rights was fiercely attacked by members of *his own Conservative party* in parliament.

The bitter end to the row which had threatened to hold up the entry of four new countries *to the Union raised fresh doubts* over whether the prime minister can survive the expected heavy defeats in this summer's local and European elections.

He strongly defended the new EU voting arrangements, which combine an increase in the number of votes required to block legislation with provision for delaying contentious directives.

Mr Major insisted also that Britain had won assurances that *the European Commission would* not seek to use health and safety legislation to bypass the UK's opt-out from the social chapter of the Maastricht treaty. That *claim was disputed by Mr Jac*ques Delors, the Commission president.

Amid deep gloom among the government's supporters, one *Conservative MP, Mr Tony Mar*low, stunned the House of Commons by publicly charging that the deal had stripped Mr Major of his authority and demanding he resign.

As Mr Major set out the terms of the deal, traditionally hostile Eurosceptics were joined by usually loyal centrist MPs in attacking them as a *retreat* from the position staked out last week.

With pro-Europeans also condemning Mr Major's handling of the row, Westminster was swept with a new wave of speculation about a challenge to his leadership later in the year.

The compromise, which provides Britain with limited voting safeguards when Austria, Finland, Sweden and Norway join the Union next year, won overwhelming endorsement in the cabinet. If it had been rejected, Mr Douglas Hurd, the foreign secretary, would have considered resigning from the cabinet.

But four rightwing cabinet ministers – Mr Michael Howard, Mr Michael Portillo, Mr Peter Lilley and Mr John Redwood – privately backed the widespread view that Mr Major should have held out for a better deal.

Mr Hurd countered by telling his colleagues that Britain's European partners would not give further ground.

Mr David Hunt, the employment secretary, said later that *the assurances from the commis*sion on social policy meant Britain would be excluded from the provisions of three new directives – on workplace discrimination, part-time working and parental leave for employees.

But Commission officials rebuffed any suggestion that Britain had received guarantees that the new voting arrangements would not lead to social policy proposals unpalatable to the UK.

The Commission made available the content of a "verbal reminder" on the state of EU social measures. This was given by Mr Delors and Mr Padraig Flynn, social affairs commissioner, to Sir John Kerr, UK ambassador to the EU.

The Commission stated that this year's proposed social measures under majority voting concern only health and safety at work, but it avoided any commitment on future legislation once the four new member states enter the EU.

The commission added that Britain's opt-out was "territorial", meaning that British multinationals outside the UK would be subject to social chapter legislation.

By yesterday's deadline of 6pm, Brussels time, for settling the voting dispute, eight countries including Britain had signed up to the EU compromise. Spain, Greece, Portugal and Italy had failed to reply, though an EU official said such delays were common among southern member states.

Background, Page 8

South Africa council agrees in principle to impose special powers

Natal faces state of emergency

By Michael Holman and Patti Waldmeir in Johannesburg

South Africa's Transitional Executive Council, the multi-party body overseeing the transfer of power through all-race elections next month, yesterday agreed in principle to impose emergency measures to combat political violence in the troubled Natal province.

The move followed a country-wide outcry over Monday's mayhem in central Johannesburg which pitted the mainly Zulu Inkatha Freedom party against the African National Congress.

"Natal is sliding into a bottomless pit of death and destruction. Something must be done immediately," Mr Cyril Ramaphosa, ANC secretary-general, told the TEC, *the de facto interim govern*ment.

The TEC said it would draft legislation to impose a state of emergency in Natal, or to declare "unrest areas" where police would have special powers. The council agreed in principle to impose such powers but did not do so immediately.

Any such actions would amount to a decision to impose the authority of central government against Inkatha, headed by Chief Mangosuthu Buthelezi who *is seeking to have the April elec*tions delayed. The TEC's aim would be to ensure that campaigning could take place.

Such a move could, however, provoke resistance from a group of armed Buthelezi supporters and call into question the loyalty of some members of the security forces, elements of which have shown sympathies with the Inakatha cause.

Much may depend on the out*come of a planned peace summit* between South Africa's four most powerful leaders, which was to have started today but was postponed until next week. ANC officials were angry at the postponement, caused by Zulu King Goodwill Zwelithini's refusal to attend a summit over Easter weekend. He said his people needed time to bury their dead.

Police said yesterday the death toll from Monday's violence had risen to 53, and there were sporadic incidents of shooting in *central Johannesburg again yes*terday.

Hopes of progress at next week's meeting seemed slim after a day in which the ANC and Inkatha traded blame for the deaths. Chief Buthelezi accused the ANC of planning to massacre *Zulu marchers outside its 21*-storey headquarters. "No reasonable person could possibly doubt what took place near the Shell House headquarters of the ANC . . . was a wilful slaughter of people who had every democratic right in the world to be where they were and doing what they were doing," he said.

But public reaction to Monday's events has been to condemn Inkatha for having provoked the attack, further isolating the group and raising fears of more violence to come.

Editorial Comment, Page 19

Japan trade package yields to US demands on imports

By Emiko Terazono in Tokyo

Japan yesterday unveiled a market-opening package intended to increase imports, reduce its record current account surplus and avert tension with the US.

The announcement follows US threats to impose trade sanctions after Japan, during talks in Washington last month, rejected US calls to accept numerical targets for imports.

Japanese officials said that except for setting numerical targets, they had conceded most demands made in previous trade negotiations. The programme aims to boost the domestic economy *and open Japan's markets* through deregulation and enhanced competition. It lays particular stress on four sectors – telecommunications, medical equipment, insurance and motor parts – which the US has made priorities in recent talks.

*Japan is to review past govern*ment procurement of medical and telecommunications equipment and the motor industry's purchases of parts from foreign groups. US calls for deregulation of the insurance industry, including easier access to licences, freeing of rates and lifting of restrictions on broking, were also accommodated.

Standards, certification and inspection procedures on *imported products such as con*sumer electronics, foods, cars, pharmaceuticals and cosmetics will be streamlined. The Fair Trade Commission, the monopoly watchdog, will be strengthened with the addition of further staff.

Analysts said policies such as *deregulation and opening mar*kets were not new, but some detailed measures improved on those so far presented to the US.

Mr Bill Farrell, executive director of the American Chamber of Commerce in Tokyo, said: "A lot of it was pretty much expected, but it looks like it has some positive aspects."

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Package details, Page 4
Honda, Mazda announce voluntary import plans, Page 4

CONTENTS

The Italian election: Berlusconi alliance wins the poll campaign but now must find a way to govern

Markets get heartburn after poll party

By Andrew Hill in Milan

The Italian election appears to have delivered most of what a nervous financial and business community had hoped for: a clear victory in the lower chamber of parliament by a single alliance of the right. Some horse-trading will be necessary for control of the upper house, but the fear of a parliament in which no single grouping has a majority has gone.

However, investors are notoriously fickle when it comes to politics. On Monday, the markets were inspired by secret and illegal exit polls showing Mr Silvio Berlusconi, the media magnate, as a clear winner at the head of his Forza Italia party and its allies, the populist Northern League and the far-right National Alliance. Milan's main stock market index rose by 3.76 per cent; the lira strengthened.

Yesterday, although those predictions were broadly *confirmed*, the hangover from Monday's election night party took its toll. The Milan index began to lose ground as the markets digested the fact that the Berlusconi alliance, so adept at campaigning, would now have to turn its hand to the trickier task of governing the country.

"International investors will focus on what any government has to do, and they will judge a government by how quickly it acts," said Mr Vittorio Pignatti-Morano, general manager of Lehman Brothers in Italy.

Confindustria, the Italian employers' federation, yesterday echoed these sentiments, urging a new government to act quickly and clearly to pursue the process of economic improvement begun by the technocratic government of the past two *years. "The vote has given a clear* indication of a choice which supports market forces and gives the state a fundamental role in direction and control [of the economy] rather than management, freeing the economy from the bonds which restrain it," the federation said.

The main reason for market concern is the potential for a row between Mr Berlusconi and his partners. Even as the first results were coming in on Monday night, Mr Umberto Bossi, head of the Northern League, made a special point of knocking the media magnate's aspirations to be prime minister and repeating reservations about governing with the National Alliance.

In its first phase, the new government will have to act quickly to reshape the public sector, implement *fiscal reform and plug the gaps in the* pensions budget. Only then is the new coalition likely to pursue its promises of stimulating economic recovery, including Forza Italia's ambitious promise to create 1m jobs.

In the meantime, many entrepreneurs will be looking to the government to break the old incestuous links between business and politics. Critics believe Mr Berlusconi is not the man to champion a new relationship.

On privatisation, which the victorious parties would like to speed up, the government will have to take a final decision on how to sell 52 per *cent of Stet, the national telecommu*nications utility, and who should advise on the sale, but the timetable for this and other outstanding privatisations is already pencilled into investors' diaries.

In any case, entrepreneurs who stood successfully for Forza Italia, the Northern League and the National Alliance across the country, should try to hold the new government to its promises to favour small and medium-sized enterprises as well as the industrial conglomerates which have traditionally been close to the government.

The new administration will not want to alienate this support. As Mr Alberto Rolla of securities house Milla put it yesterday: "The political struggle was very dirty, especially in the last days [of the campaign], and his [Mr Berlusconi's] problem now is presenting himself as someone who can make peace with everyone."

Winners and losers from Berlusconi partnership

NORTHERN LEAGUE

Northern League leaders put a brave face yesterday on evidence that more moderate supporters had deserted to their ally, *Forza Italia, insisting they* would not abandon their federalist principles, writes John Simkins in Milan.

Although Mr Umberto Bossi's League approximately doubled its tally of senators and lower house deputies from the 79 elected in 1992, its success in the first-past-the-post seats owes much to Forza Italia's support. Their pact favoured the League in the division of seats, allowing it, as the more established party, to nominate 70 per cent of candidates.

Respective support showed *itself in the 25 per cent of* lower house seats reserved for proportional representation, where parties stood under their individual banners. In these the League took 11 seats compared with Forza Italia's 16 in northern seats.

Mr Massimo Scaglione, one of 12 League senators elected in Piedmont compared with one for Forza Italia, said he was "very satisfied" with his party's performance.

He backed Mr Bossi in his campaign attacks on Forza Italia which, according to the League leader, emerged out of *the old political system that* the League was trying to dismantle.

"It is much better to speak as he does. Bread is bread and wine is wine and this is the frank style of the League," he said.

However, Mr Marco Formentini, the League mayor of Milan, accepted that the "soft" face of Forza Italia had attracted League moderates. "The League has a rigorous programme which it is difficult to accept because it means changing the state and switching from a central system to a federal one," he said. Forza Italia would accept change was necessary once it had to confront the country's problems in government.

MSI/NATIONAL ALLIANCE

The electoral impact of Forza Italia has tended to overshadow the dramatic gains made by the neo-fascist MSI/National Alliance of Mr Gianfranco Fini, writes Robert Graham in Rome.

The MSI/National Alliance is the third largest party in the new parliament and now accounts for almost 14 per cent of the vote. Linked in with Forza Italia, it has become the biggest political grouping from Rome south.

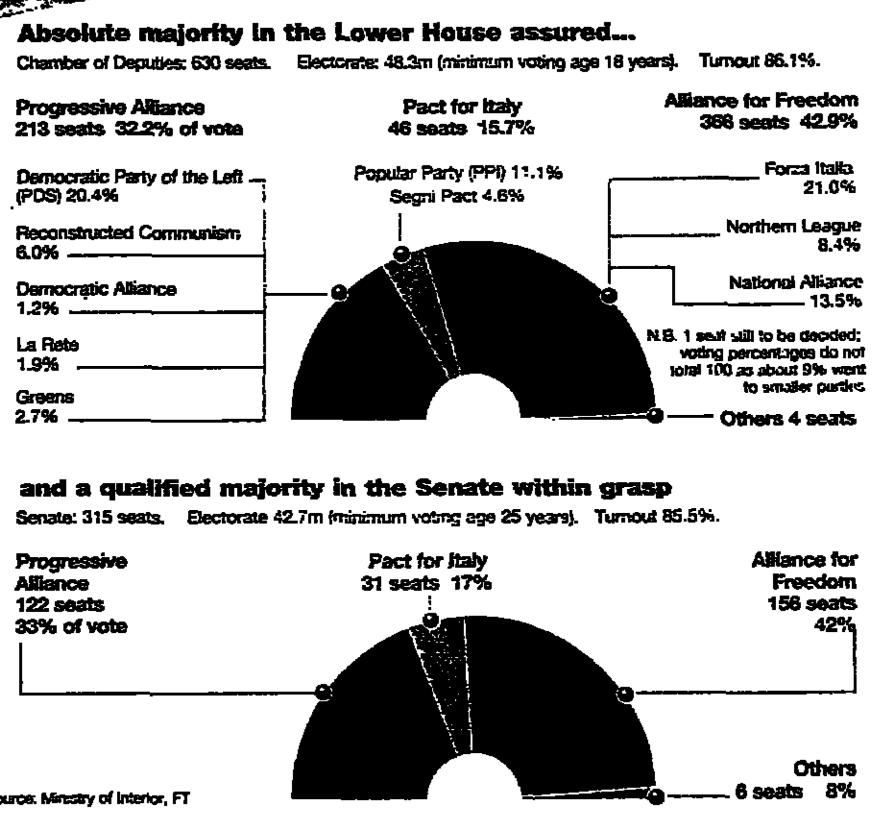
For the previous two decades, the MSI had never risen above 6 per cent of the vote. In less than 12 months Mr Fini has transformed the party from a marginal political role to become a key player. The general election result in good measure reflects Mr Fini's popularity as a vigorous young leader, untainted by corruption scandals.

The MSI has traditionally done well at a local level in isolated areas of the south, thanks to monarchist traditions, a strong connection with the masonic movement and a visceral identification with the achievements of Mussolini. But the party has become a big beneficiary of the collapse of the two main governing parties, Christian Democrats and Socialists, which dispensed patronage in the south.

By changing the party's name from the National Social Movement - modelled on Mussolini's political movement - to the National Alliance, Mr Fini has managed to modernise its image and confer a new respectability. The party also managed to retain its own identity separate from that of Forza Italia, standing separately in Trieste and parts of the Marche. In the south, Forza Italia was Mr Berlusconi's equal partner and sometimes the dominant one.

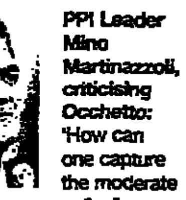
Mr Fini is an enthusiastic proponent of Mr Berlusconi as prime minister. To enter government, he will also need to remove some of the more overtly fascist elements that hover in the party wings.

The right romps home

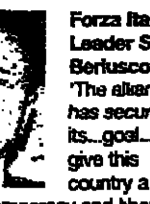


Source: Ministry of Interior, FT

Democratic Party of the Left (PDS) Leader Achille Occhetto: 'There is no doubt that the right has won, but it is a right that will not be capable of giving a government to the country.'



PPI Leader Mino Martinazzoli, criticising Occhetto: 'How can one capture the moderate vote by proposing radicalism, as he did. Faced with the fear of a radical left, voters flocked to the right.'



Forza Italia Leader Silvio Berlusconi: 'The alliance has secured its...goal...to give this country a future of democracy and liberty.' 'Every sacrifice' would be made to form a government. 'Victory brings unity.'

Voting system leaves small parties in cold

By Andrew Hill

Italy's victorious right was yesterday claiming that its electoral success was based on overwhelming nationwide support for the alliance of Mr Silvio Berlusconi's Forza Italia, the federalist Northern League and the far-right National Alliance.

But the Progressive Alliance of seven left-wing parties said the result showed Italy had split into three clear parts - the north, centre and south - with parts of the centre of the country, a traditional stronghold for communist and socialist voters, seeing off the *challenge of the right. In Umbria*, for example, Progressives were elected in all the first-past-the-post seats, while in Tuscany, the left won 80 per cent of the seats.

What was clear, however, was that Italy's complex new voting laws had produced a parliament shorn of many of the smaller parties which used to win seats under the old electoral system.

The reformed Socialist party, the Sicily-based clean government movement, La Rete, the Greens and the centre-left *Democratic Alliance all failed* to attract more than 4 per cent of the votes. As a result, they will not be entitled to any of the 155 seats in the 630-seat lower house which were "reserved" for smaller parties under the proportional system.

Some candidates should enter parliament under the first-past-the-post system, however. All four parties were part of the Progressive Alliance, which instead has had to rely on the stronger performance of its main components, the Democratic Party of the Left (PDS) and the hardline candidates of Reconstructed Communism.

Mr Giuseppe Ayala, leader of the Democratic Alliance - which had attracted the support of left-leaning figures from business and the arts - admitted yesterday that the small parties had made a serious tactical error in conducting separate campaigns for support under the proportional system.

Mr Carlo Ripa di Meana, formerly Italy's environment commissioner in Brussels and spokesman for the Greens, claimed that the small parties could not compete with the televisual power of their larger opponents.

The most impressive victories for the parties of the right came in the south, notably in Sicily. The leader of La Rete, Mr Leoluca Orlando, who became mayor of Palermo as recently as November with 75 per cent of the vote, had to watch while National Alliance and Forza Italia candidates, including film director Franco Zeffirelli, captured all but a handful of the Sicilian seats.

But Mr Giuseppe Chiarante, PDS leader in the Senate, warned that the new voting system risked "leading Italian democracy up a dangerous blind alley" which would make it difficult for the right to govern the country.

The new rules also punished, as expected, the centre parties of the Pact for Italy. Most notably, *Mr Mario Segni, who left* the Christian Democrats and successfully pushed for a referendum on voting reform last year, has found himself in the embarrassing situation of having to take up one of the parliamentary seats allocated under the proportional system which he sought to abolish after losing his first-past-the-post seat.

However, the defeat of the left was not a rout. The Progressive Alliance may be able to make life difficult for the government in the Senate, where Forza Italia, the National Alliance and the League fell short of achieving an absolute majority.

As the postmortem began among the Progressives, it was clear that the left would not simply allow itself to be pushed around in either house of parliament.

Mr Chiarante admitted that, particularly in the north, the left had suffered a heavy defeat. But he added: "It's now essential to transform this electoral pact [between the parties of the left] into a firm democratic unity, using this grouping as the basis and the point of departure for a more markedly dynamic and innovative political strategy, which will prevent the right from presenting itself as the newest *and most modern force.*"

Negotiators hold out hope of ceasefire in breakaway Serb territory

Krajina talks make progress

By Laura Silber in Belgrade

Croatian government officials and leaders of Krajina, the breakaway Serb territory in Croatia, yesterday made headway in crucial talks on a ceasefire, which Serb leaders said could avert another war in the region. Negotiators held out the hope that the two sides might reach an agreement late yesterday night.

"I don't see why the agreement cannot be reached today.... We are in a perfect position. It is up to the two sides whether they want this agreement," said Mr Vitaly Churkin, the Russian special envoy to the region who hosted the talks.

Mr Slobodan Jarcevic, foreign minister of Krajina, the self-styled state which covers nearly a third of Croatia, said: "If we get a ceasefire, which is backed by the international community, then we could avoid war."

Speaking by telephone from *the Russian embassy in* Zagreb, the Croatian capital, where the two sides met for the second time in a week, Mr Jarcevic said: "The chances are fifty-fifty that we reach an agreement. The atmosphere is very tense, but so much is at stake."

International mediators see resolution of the Serb-Croat conflict, which began in 1991, as the key to peace in Bosnia and stabilisation of former Yugoslavia. "They received a message that there is a sense of urgency and even impatience in the international community that this opportunity should not be allowed to pass by," said Mr John Mills, spokesman for the United Nations conference on former Yugoslavia.

Mr Charles Redman, the US special envoy, and Mr Peter Galbraith, the US ambassador to Croatia, also urged Croat and Serb representatives to reach an agreement, which was to include the withdrawal of infantry by 1km and heavy weaponry by 20km, said diplomats.

Ceasefire talks collapsed last week amid disagreement over the front line.

The two sides remain far apart in their political demands. Serb leaders insist on independence for their breakaway state, carved out over a six-month war, backed by the Yugoslav army, while Croatian authorities are pressing the international community to bring Krajina, which cuts Croatia in two, under Zagreb's control.

President Slobodan Milosevic of Serbia has reportedly suggested trading parts of Serb-held land in exchange for the phasing out of UN sanctions on what remains of Yugoslavia.

These areas include western Slavonija, which straddles the main motorway, and Knin, the Serb stronghold in Krajina, which was once the key railway junction for Croatia and has all but cut off access to the southern Dalmatian coast.

Kravchuk sets new hurdle in the path of parliament

By Jill Barshay in Kiev and Leyla Boulton in Simferopol, Crimea

Ukrainian voters were confronted with a fresh obstacle to the election of a new legislature yesterday, when the government announced a complicated procedure for the run-off elections which must take place by April 10. The procedural complication will make it more difficult for voters to elect a viable legislature.

Unexpectedly high voter turnout in the Sunday elections threatened to thwart Ukrainian president Leonid Kravchuk's hopes to introduce direct presidential rule after what he forecast would be a turnout too low to legally elect a new parliament.

By confusing the procedure for the run-off votes, which must take place in 90 per cent of the seats, Mr Kravchuk's government appears to be looking for another way to prevent the emergence of an effective legislature.

Mr Ivan Yemets, the chief election officer, announced yesterday that the crucial run-off ballots need not, as previously believed, be held simultaneously on April 10, but may be held as early as April 2, depending on the wishes of the *regional administration. Hold*ing the vote at different times in different regions of the country could confuse voters.

Mr Kravchuk, who toyed with plans to introduce direct presidential rule on the eve of the elections, has reason to *fear last Sunday's vote*. Unexpectedly, 75 per cent of Ukrainians showed up at the polls and initial results suggest they voted for a legislature more independent and reform-minded than its communist-dominated predecessor. Voters also gave a powerful mandate to two leading Ukrainian political figures, and possible contenders for the presidency.

Mr Ivan Pliushch, the outgoing speaker of parliament, and Mr Leonid Kuchma, the former prime minister, both won seats with strong majorities and have insisted that the presidential elections be held on schedule in June.

Mr Bohdan Krawchenko, the Canadian director of Ukraine's main school of public administration, predicts the new parliament will be evenly divided between centrists, nationalist-democrats, and communists. He also believes economic reforms will now be forced to the top of Ukraine's political agenda. "The power vacuum at the heart of Ukraine is gone," he said. The remaining power-*struggle, regardless of how the* conflict between the president and parliament is resolved, is that between Ukraine's disparate regions.

Crimea, which elected a separatist president in January, voted strongly for closer ties with Moscow and voters in eastern Ukraine endorsed more economic integration with Russia. However, the polls in these regions have no legal weight and both Crimeans and eastern Ukrainians appeared content to wait until a new parliament is convened before pressing their demands.

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NEWS: EUROPE

EUROPEAN NEWS DIGEST

Slovakia blocks privatisations

The new Slovak government has blocked the privatisation of 13 projects approved by its predecessor between February 15 and March 13, the privatisation minister, Mr Milan Janicina, said yesterday.

Mr Vladimir Meciar's government, ousted in a no-confidence vote on March 11, had approved 45 direct sales of state-owned companies. Many were approved after Mr Meciar lost the vote and before the new administration took over, government officials said.

On March 18, Mr Rudolf Filkus, the new finance minister, blocked the account of the National Property Fund, effectively stopping any transfers of shares held by the agency which administers the privatisation of state-held enterprises. "The projects in question are legally and technically imperfect," he said. However, some of the 13 companies would be awarded to the original buyers approved by Mr Meciar's government "when purified of legal and technical imperfections", he said. Mr Janicina added that some projects lacked authorisation by the anti-monopoly bureau and other legal requirements. Others undervalued property. *Reuter, Bratislava.*

Romania approves tax on land

The Romanian parliament yesterday approved a law introducing a tax on land ownership, which the Propact farmers' union said would create social unrest. Although most agricultural land is now worked by private farmers, only 15 per cent of the 5.1m private landowners have received full titles to property returned under a 1991 act. This has prevented them from using their land as collateral to raise capital for seeds and equipment. Opposition MPs, who boycotted the vote on the law, said the tax was illegal and that they intended to appeal to the constitutional court. They said tax could be levied on production but not on estimates of production from a piece of land, as provided in the law. The tax was a way of discriminating against private individual landowners, they said. Agriculture companies, such as state farms, will continue to pay tax on profits rather than the new tax. Passage of the law clears the way for presentation of the much-delayed 1994 budget and for International Monetary Fund approval of a $700m loan package. *Virginia Marsh, Bucharest.*

Ceausescu spies keep their jobs

Mr Virgil Magureanu, head of the Romanian Intelligence Service, yesterday said 5,000, or one-third, of the former full-time employees of the Securitate, the secret police of executed communist dictator Nicolae Ceausescu, still worked for its successor agency, the RIS. At a rare press conference, Mr Magureanu said their previous allegiance did not matter. He also said a staff of 5,000 was insufficient and that he was in the process of doubling it. However, he denied reports that the recent replacement of a quarter of RIS office staff was due to an internal power struggle. He added that the KGB was a "huge problem" for the RIS, which was investigating its former activities in Romania. *Virginia Marsh.*

De Benedetti telecoms reward

Mr Carlo De Benedetti, chairman of Olivetti, yesterday said the winning of the Italian mobile telecommunications licence by a consortium led by his computer group had rewarded "three years of enthusiasm". Late on Monday the government announced that Omnitel-Pronto Italia had been awarded the licence for Italy's Europe-wide GSM network over a rival offer from the Unitel consortium, which grouped Fiat, Fininvest, Vodafone and BellSouth. Olivetti's shares yesterday rose 3.5 per cent, by mid-session, on the Milan stock market, against a static market. The 15-year licence has been valued at up to L4,300bn ($2.54bn) and will pit Omnitel-Pronto Italia against the state-controlled Sip domestic network, which had held a monopoly in the mobile phones market. *John Simkins, Milan.*

Slovene defence chief sacked

The Slovene parliament yesterday voted by 49 to 39 to dismiss Mr Janez Jansa, the defence minister, on charges of abusing his powers. Mr Jansa, who was once the hero of Slovenia's 10-day war of independence against the Serb-dominated Yugoslav army in 1991, has waged a bitter campaign of opposition against President Milan Kucan of Slovenia, a former communist who led the country's drive for independence. Mr Janez Drnovsek, the prime minister, yesterday proposed Mr Jelko Kacin, the former information minister, to fill the post. Mr Drnovsek, who had also been at odds with Mr Jansa, said the sacking followed allegations made by a former military agent that Mr Jansa was involved in tapping journalists' phones. *Laura Silber, Belgrade.*

Balladur's support plummets

Public confidence in the French prime minister, Mr Edouard Balladur, crashed by 12 percentage points in March to stand at just 40 per cent, according to an opinion poll published yesterday, his first anniversary in office. The poll by the CSA institute for the Roman Catholic weekly newspaper, La Vie, was the latest evidence of a sharp decline in public approval of the conservative Gaullist prime minister following a wave of youth unrest. It showed Mr Balladur's confidence rating had fallen below that of the socialist president, Mr François Mitterrand, who rose by 6 points to 45 per cent in the same period. *Reuter, Paris.*

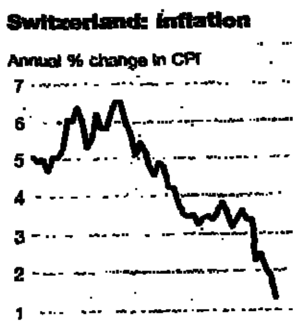
Albanian appeal for investment

Mr Sali Berisha, the Albanian president, yesterday called for greater foreign investment in Albania's infrastructure to sustain economic growth which reached 11 per cent last year. Addressing a Confederation of British Industry conference in London, he said Albania expected investment in 1994 of nearly double the $290m recorded last year as foreign companies supplied the technology to develop Albania's oil, chrome, copper and nickel reserves and modernise its agriculture and tourist infrastructure. *Anthony Robinson.*

ECONOMIC WATCH

Swiss inflation falls to 1.3%

Switzerland: inflation



Source: Datastream

Inflation in Switzerland fell to an annual rate of 1.3 per cent in March, its lowest level since June 1987. Many economists believe the rate will sink below 1 per cent in the next couple of months, down from an annualised peak of 6.6 per cent in June 1991. An excessively loose monetary policy in the late 1980s forced the central bank to push up short-term interest rates to over 9 per cent by early 1992, provoking indexed rent and public service price rises. The indexing is now working in reverse. The consumer price index was unchanged in March from February. The Federal Statistics Office said domestically produced goods were 0.1 per cent dearer and imported goods 0.2 per cent cheaper. *Ian Rodger, Zurich.*

■ Denmark's current account surplus rose to DKr34.7bn ($5.3bn) in 1993 from DKr28.8bn in 1992.

■ New orders in Germany's engineering and plant construction sector were unchanged in February compared with a year earlier, with a 6 per cent decline in domestic orders offset by a 6 per cent increase in foreign orders.

■ French industrialists surveyed by the national statistics office, Insee, during March said activity had picked up sharply in recent months and they were "resolutely optimistic" on the outlook for production.

Turkey shaken by Islamic party's wins

By John Murray Brown in Istanbul

Turkey's Islamic-based Refah party (RP) yesterday delivered a decisive challenge to the country's mainstream secular parties, with widespread gains in the weekend's municipal elections, including dramatic wins in both Istanbul, the biggest city, and Ankara, the capital.

The RP, campaigning on a anti-corruption platform, had last night won 28 of the country's 76 municipalities, with almost all the votes counted. The party had taken 18 per cent of the national vote, twice the votes won in local elections in 1989. Mr Necmettin Erbakan, the RP leader, claimed yesterday the result meant that 66 per cent of Turkey's 60m population was now ruled by RP local administration.

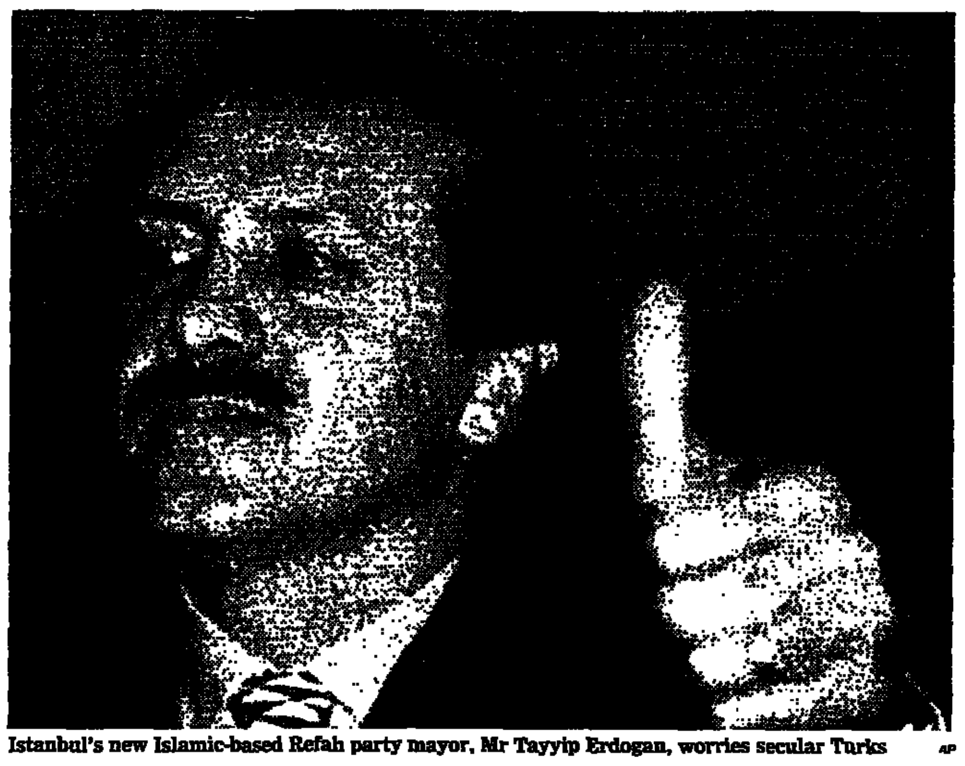
Westernised Turks have always maintained that RP's brand of radical Islamic policies would never win broad appeal. The RP was helped in part by the continuing split in Turkey's traditional conservative parties. However, the result has clearly shaken the secularist establishment.

Mrs Tansu Çiller, the prime minister – whose True Path party narrowly won the national vote with 22 per cent – immediately called for a new alliance of the right, signalling the growing alarm in Ankara at the Islamic vote. According to one expert, the support for the RP, if repeated in a general election, would give the party at least 100 seats in the 450-seat parliament. The RP currently has 40 MPs in Ankara.

In an Istanbul office lined with books on American government, Mr Abdullah Gul, a senior adviser to Mr Erbakan, projected the RP leader yesterday as the model of reasonableness. "We are something like the Christian Democrats in Europe," he says.

This week, for the first time, Turks will have a chance to test this claim.

As the map on the front page of the daily Hurriyet newspaper graphically illustrated yesterday, the party controls a swathe of city halls all the way from Istanbul to Erzerum on the old Soviet border.



Istanbul's new Islamic-based Refah party mayor, Mr Tayyip Erdogan, worries secular Turks AP

For radical Moslems, Istanbul is a particularly intoxicating prize. The city is an Islamic holyplace. It is ingrained with Christian history – almost a byword for the western decadence and spiritual sterility which fanatics say was unleashed when Kemal Ataturk created the secular Turkish republic in the 1920s.

Among Istanbul's residents yesterday RP's victory was just sinking in. Would the mayor ban alcohol? Would the RP be able to close cinemas and clubs in the interest of public morality? Would international funding for the city's badly needed infrastructure projects dry up?

Mr Tayyip Erdogan, the victorious mayoral candidate, promised to build a mosque in Taksim Square, the city's main shopping district. He said he would close the city brothels, and create the world's biggest conference centre.

Nationally, the RP's vote was distorted somewhat by the withdrawal of the radical Kurdish-based Democracy party, which allowed the RP a free run in the Kurdish-speaking south-east. However, the party has made sweeping advances in other areas. In Trabzon, for example, the RP is said to have won over local women by promising to send home the so-called "Natashas", the Russian and Georgian prostitutes who have turned the ancient port city into the Bangkok of the Black Sea.

Deliberately courting the moderate Islamic constituency, the party was often fronted by attractive, unveiled women dentists and other professionals on an anti-corruption platform. But while some RP leaders have been prominent in Turkish politics since the 1960s, the party remains largely untested in government. It is anti-Zionist, anti-Nato and opposes Turkey's efforts to join the European Union.

In many ways, Mr Erbakan hardly fits the ogre that most secular Turks conjure up when they think of Islamic extremists. But the RP's real advantage is that it is the only grass-roots party in the country. The other parties are all centred on figureheads. Mr Erbakan has tasted power before. In the late 1970s, he was deputy prime minister in a number of disastrous national governments which eventually led to the military's intervention in 1980.

Everyone is waiting now to see how the RP grapples with the gargantuan problems of running Istanbul. As the former social democrat administration discovered after a series of corruption scandals, the city is a graveyard for political reputations. Many secular Turks, who still believe that they are Turkey's silent majority, are hoping the RP will also fail.

South Korean president tries to cool row with North

By Tony Walker in Beijing and Victor Mallet in Bangkok

South Korea's President Kim Young-sam yesterday called for greater diplomatic efforts to solve the crisis over North Korea's refusal to open its nuclear sites to international inspection.

His call came as North Korea said it had been "driven into a corner" by US and international demands for full nuclear inspections, and reiterated it would withdraw from the nuclear non-proliferation treaty (NPT) if US pressure continued.

Speaking after talks with China's Premier Li Peng, Mr Kim appeared to support Beijing's call for patience in dealing with North Korea. "Through consultation and dialogue I believe we can solve this problem smoothly without any difficulties," he said.

Mr Kim has sent his foreign minister, Mr Han Sung-joo, to the US to press for heightened diplomatic efforts. Mr Han would also visit Russia early next month for consultations on the nuclear issue, he said.

China opposes US efforts at the UN to set a deadline for Pyongyang to comply with international demands for access to its nuclear sites for International Atomic Energy Agency (IAEA) inspectors.

Beijing has indicated it might accept a statement by the Security Council president calling for North Korean co-operation, but only if it was couched in general terms and did not foreshadow economic sanctions.

China's foreign ministry said on Monday that dialogue was "the only effective way" to settle the issue. China is apprehensive of action that might place its unpredictable neighbour in a corner.

Mr Kim used his visit to Beijing to urge China to play a more active role in seeking to wean North Korea from its self-imposed isolation. "We have never wanted the North to be isolated and will spare no effort to help Pyongyang join the international community as a responsible member," Mr Kim said at Beijing university yesterday.

This approach mirrors one advocated by China. Chinese officials have said repeatedly that the west and especially the US should make gestures towards North Korea, such as steps towards diplomatic recognition.

Mr Han said in Beijing before leaving for Washington that although China opposed sanctions against Pyongyang, it did not reject Seoul's view that pressure on North Korea could be increased later if required.

Mr Han denied there was a wide gap between China's position and that of the US and South Korea. "There's only a difference in the intensity of preference," he said.

South Korean officials have warned that sanctions against Pyongyang without China's co-operation would be ineffective. China supplies the bulk of North Korea's oil. It also ships foodstuffs.

China has criticised US and South Korean plans to resume the Team Spirit joint military exercises suspended last year in an effort to encourage North Korea to be more co-operative. Beijing has also counselled against the deployment of US Patriot missiles in South Korea.

These criticisms are regarded by western officials in Beijing as "pro-forma". China is thought to want to continue giving the appearance of supporting North Korea on some issues in the hope that ultimately this may bolster its leverage in Pyongyang.

Meanwhile in Bangkok, in a rare briefing by a North Korean official, Mr Li Do Sop, Pyongyang's ambassador to Thailand, denied his government wanted to build nuclear weapons, saying it had neither the capacity nor the money to do so.

Explaining why North Korea has barred IAEA inspectors from fully examining all its nuclear sites, Mr Li said this was a response to outside pressure.

"They forced us too much, they drove us into a corner so much that we reacted," he said, calling North Koreans the "victims" of US hostility. "The US's pressure-bound machinations will result in driving us completely out of the NPT."

Mr Li avoided the bellicose language of some earlier North Korean statements and described his country's military posture as completely defensive. Asked why his country had developed long-range missiles, he replied: "We have to increase our defensive capacity to defend our sovereignty and our dignity."

He insisted the nuclear issue should be resolved as part of a package deal agreed by Washington and Pyongyang last month that included an IAEA inspection, a proposal for the exchange of envoys between North and South Korea, and the suspension of the US-South Korean "Team Spirit" military exercise. Each side now accuses the other of breaking the agreement; the US and South Korea are planning to go ahead with Team Spirit.

"The US does not have real intentions to solve nuclear problems through negotiations or talks," Mr Li said. "It is their intention to stifle our republic, destroy our republic." He ruled out a military first strike by North Korea, but added: "If they kill one of us, then one of them should also be killed."

On the threat of economic sanctions against North Korea, Mr Li said his country was already under economic pressure from the US and Japan and was accustomed to self-sufficiency.

Li Do Sop: defensive

"The people have no worries about their housing, clothes or their food, or any worries about medical care," he said. "At this moment, our people are saying they are happy."

Patten pledges action on rising HK home prices

By Simon Holberton in Hong Kong

The Hong Kong government is to develop a comprehensive set of proposals to deal with the issue of rising house prices, Mr Chris Patten, the colony's governor, said yesterday. The governor said rising property prices were the top issue facing Hong Kong. "It is an exceptional problem and I think it will demand exceptional measures," he said.

Home ownership is one of the main aspirations of people in Hong Kong. But analysts say that due to a government policy which restricts the supply of land for residential development, prices have been kept artificially high.

In 1993, residential property prices rose by an average 29 per cent compared with the previous year. At the luxury end of the market, prices were up by more than 50 per cent. Mr Patten, who left for Europe last night, said he had instructed senior civil servants to develop proposals for action by the early summer. There were no simple solutions to the problem, he declared.

Property market analysts said the problem of high residential property prices could be solved by an increase in the supply of land. Mr Peter Churchouse, managing director of Morgan Stanley, said: "The government is absolutely appalling in its land policy. It runs a high land-price policy which has meant land prices are twice what they should be."

High residential property prices have caused a storm of protest in Hong Kong. Elected politicians have warned of unrest among frustrated home buyers who cannot afford the price of entry into the residential market. A 600 sq ft flat costs around HK$2m (£173,460).

Property developers have also been accused of rigging the property market by holding back from release completed homes. Prof Edward Chen, a member of Mr Patten's Executive Council, and chairman of the Consumer Council, has alleged developers are holding back up to 50 per cent of flats completed last year. Even Beijing has joined the debate, with officials criticising mainland companies for speculating in the colony's property market.

● Hong Kong's electoral watchdog launched a publicity campaign yesterday, to persuade residents to register to vote in the last elections before the British colony returns to China in 1997, Reuter reports from Hong Kong. Mr Woo Kwok-hing, Election Commission chairman, said he hoped a quarter of Hong Kong's 1.94m eligible voters who have yet to register would do so by July 1. The final local council polls fall in September, with Legislative Council elections next year.

PLO officials say they do not expect to announce any agreement before today

Hebron security talks held in secret

By Mark Nicholson in Cairo and David Horovitz in Jerusalem

Palestinian and Israeli negotiators met secretly in Cairo last night, in a continuing effort to finalise security arrangements for Palestinians in Hebron, which the PLO has insisted are the precondition for returning to full peace talks.

PLO officials said before the talks they did not expect to announce any agreement before today. They refused to call the talks "negotiations", saying their delegates were simply "receiving answers from the Israeli government".

The PLO and Israel agreed last week in principle to the deployment of international observers and Palestinian police in Hebron but were at odds over the number to be deployed and rules of deployment. Israel has said it will permit only 60 international observers and a few dozen Palestinian police; the PLO insisted on 150 observers and 400 police.

PLO negotiators kept their Israeli counterparts waiting for over an hour before the talks started. They were awaiting clearance from Mr Yassir Arafat, the PLO chairman based in Tunis, who had convened senior officials to discuss whether to stall the talks in protest at the shooting of six members of his own Fatah faction in Gaza on Tuesday.

A Palestinian kicks an elderly Jew in Jerusalem yesterday amid unrest after Israeli troops killed six PLO men in Gaza Reuter

The two sides are likely to proceed as quickly as possible on resolving the Hebron issue before moving directly to a resumption of full talks on Israeli withdrawal from Gaza and Jericho. These talks have been suspended since an Israeli settler killed over 30 Palestinians in Hebron on February 25.

Mr Shimon Peres, Israeli foreign minister, seemed downhearted yesterday, speaking of the "many obstacles" to be overcome before talks could resume, and ruling out any prospect of an early summit between Prime Minister Yitzhak Rabin and Mr Arafat.

The Israeli team, last night briefing Mr Rabin on the Tunis talks, ruled out PLO calls for the removal of Jewish settlers from Hebron. Most Israeli ministers favour evacuation of the settlers, but Mr Rabin has been adamant that, in accordance with the Declaration of Principles signed by Israel and the PLO in Washington last September, the issue of settlements remains off the agenda for at least two years.

● PLO leaders in Gaza emphatically denied yesterday that the six Fatah activists shot dead by Israeli undercover troops in the Jeblaya refugee camp on Monday night had opened fire first on the soldiers, and Israeli military officials appeared to backtrack on their earlier claims that the soldiers had come under fire.

The military officials, having initially claimed their troops opened fire on the uniformed Fatah activists only after being shot at themselves, revised their account, saying only that since the Fatah men were armed, the soldiers feared for their lives.

The Gaza killings triggered a furious backlash in the occupied territories, with at least one Palestinian killed and more than 50 injured.

Hosokawa takes a more pragmatic line

Has Tokyo opened its markets enough to satisfy the US and stave off trade sanctions, asks **Emiko Terazono**

For Mr Morihiro Hosokawa, Japan's prime minister, who last month claimed that US-Japan relations had turned into a "mature relationship" following his rejection of American demands on trade, yesterday's package represented a a return to more pragmatic approach in dealings with the US.

Concerns that increased tensions will hurt the Japanese government and also the sluggish economy have overcome initial euphoria among government officials and the media which applauded a Japan that can say No to the US.

Foreign ministry officials are worried that increased tensions over trade could harm the overall US-Japan relationship at a time when Japan's importance as an ally to US seems to be declining with the end of the cold war.

The economic consequences are also causing anxiety. The sharp rise in the yen following the breakdown of the talks in February is squeezing exporters' profits and threatening an economic recovery expected later this year. Implementation of sanctions by the US would also deprive Japan's export-dependent manufacturers of one of their largest markets.

And the increasing trade friction between the two countries is creating a political risk for Mr Hosokawa, whose popularity is waning amid mounting pressure from the opposition Liberal Democratic party to clarify his links with Sagawa Kyubin, a trucking company at the centre of several recent scandals and which provided the prime minister with a Y100m (£636,900) loan 10 years ago.

According to an opinion poll by the Nihon Keizai Shimbun, the business daily, Mr Hosokawa's approval rate this week fell to 47.6 per cent, dropping below 50 per cent for the first time since his appointment last August. He cannot afford to provide the LDP with extra ammunition by failing to resolve the stalemate with the US over trade and jeopardising the relationship.

The leading question is whether the latest package is enough to persuade the US to reopen the so-called framework talks on trade. Some US officials expressed dissatisfaction at the lack of specific figures for an income tax cut and for levels of government expenditure, which are scheduled to be announced in June in time for the Group of Seven summit of leading industrial nations.

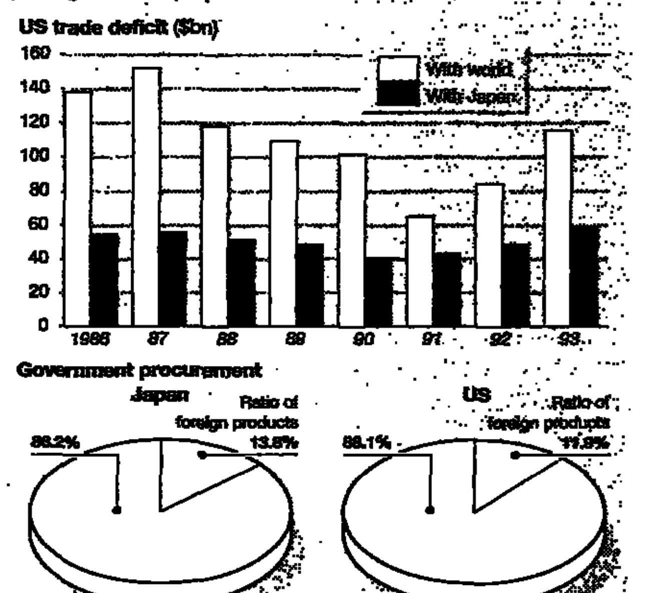
Although yesterday's package included no radical new ideas, US government officials and businessmen agreed the easing of regulations and increased transparency indicate a move in the right direction.

The measures, in opening up the Japanese market to US manufacturers, will in theory aid economic efficiency, which would be of key assistance to a mature economy set for slow growth over the next decade.

For Japanese government officials, the announcement of the package allowed them to prove that they can set voluntary trade policies after last month's bilateral framework talks failed to go beyond negotiations over binding import quotas. However, for the US, the programme only confirms old beliefs that foreign pressure is the only way to get results out of Japan.

Analysts say it is thus unlikely that the the US will lift pressure over trade. "The yen will remain volatile as it will be used as a policy tool aimed at Japan until the US sees actual results," said stockbroker Jardine Fleming in Tokyo.

Tokyo's US trade tussle



Source: MITI

Japanese carmakers relent after sustained pressure from US

Honda, Mazda to buy more US car parts

By Paul Abrahams in Tokyo

Honda and Mazda, the Japanese motor groups, yesterday followed the example of their three main competitors and announced plans to increase use of locally made components at their American factories. The companies also promised to increase imports into Japan.

Separately, the ministry of international trade and industry announced it was ending its voluntary cap on car exports to the US because it had been made redundant by local manufacture of Japanese cars in the US.

The cap was introduced in 1981 to protect the US motor industry. About 1.54m vehicles will be built by Japanese manufacturers in the US in 1994, the first year they will exceed exports to the US of cars produced in Japan. These are expected to reach nearly 1.4m units. Japanese exports have been under the ceilings set by the voluntary agreement since 1987.

The announcements come as the Japan Automobile Manufacturers' Association revealed that Japan's motor exports in February had fallen 23.5 per cent in unit terms compared with the same month last year. The figure was down 2.6 per cent on the preceding month. In dollar terms, exports, including parts, dropped 7.9 per cent to $6.85bn. Japanese car, bus and truck makers have been struggling with the high value of the yen which has made their products increasingly uncompetitive.

The car makers' undertakings on parts follow sustained pressure from Washington for Japan to increase use of US vehicle components to reduce Japan's trade surplus. Only 2 per cent of motor parts are imported. The Japanese government insists it is unable to interfere in private business.

Toyota, Nissan and Mitsubishi have already revealed similar programmes. Combined, the five groups have committed themselves to increasing US parts purchases by more than $5.3bn by the financial year ending March 1998.

Honda said it planned to increase the use of US parts at its Marysville, Ohio plant from $3.21bn in the 1992 financial year to $4.65bn during the 1995 financial year. It would also raise imports of vehicles and parts from $1.07bn to $1.27bn between 1992 and 1995.

However, the group said that while it would make every effort to achieve such goals, it was not an enforceable commitment. "Successful achievement of the goal depends on maintaining strong sales in the US and continued improvements in US suppliers' competitiveness," it said.

Mazda announced it would increase imports of components into Japan from $560m last financial year to $870m by the year ending March 1998. Over the same period local procurement of parts at its American factory would increase from $1.65bn to $1.9bn.

Mixed signals on state of the economy

By Paul Abrahams

Further contradictory data about the state of the Japanese economy emerged yesterday. Although an index used to measure the economic outlook for the next six months was up, unemployment rose sharply and sales in large stores fell.

The latest report from the Economic Planning Agency showed the diffusion index of economic indicators had risen to 60 in January, moving solidly above the 50 mark, the dividing line between growth and contraction. The index can be unreliable, since it indicated an economic recovery during the first four months of 1993 which did not occur.

Nevertheless, housing loans increased sharply during February, as home buyers took advantage of low interest rates. The number of loan applications for owner-occupied homes rose 65.9 per cent compared with last February, the Housing Loan Corporation said.

The pick-up in housing loans fed through to a small increase in sales of furniture and household electrical goods at large retailers. But overall sales at such outlets dropped 2.8 per cent in February compared with the same period last year, according to the international trade and industry ministry. This was the 21st month retail sales fell, and throws some doubt on the likelihood of a consumer-led recovery.

Any upturn in the economy has yet to feed through to the jobs market. The government yesterday said the unemployment rate last month had risen 0.2 percentage points to 2.9 per cent compared with January. The rate was the highest since June 1987, while unemployment among women rose steeply to reach an all-time high of 3.2 per cent.

Economists said employment normally lagged behind an economic recovery, but the sharp rise in unemployment was a disappointment after it had fallen in January for the first time in 22 months.

The number of people without jobs reached 1.94m in February, an increase of 370,000 (23.6 per cent), compared with the same month last year. Much of the fall was caused by a drop in manufacturing jobs, down 480,000 since last year. A rise in the number employed in construction and services failed to offset the decline.

The continuing weakness of the jobs market was confirmed by a fall in the ratio of employment available to job seekers, which dropped 0.02 percentage points to 0.65. The rate peaked in March 1991 at 1.45. The number of jobs available fell 1.5 per cent; the number of applicants rose 2 per cent.

NEWS IN BRIEF

Singapore secrets trial nears end

By Kieran Cooke in Kuala Lumpur

Prosecution and defence in the Singapore trial of five men charged with breaking the republic's official secrets act by disclosing a government economic growth estimate have finished presenting their cases. A verdict is expected later this week or early next.

The five, two financial journalists and three economists, are accused of colluding in the disclosure of the 4.6 per cent second-quarter growth figure for 1992, which was published in the Singapore Business Times, the republic's leading financial daily.

Among the accused are Mr Tharman Shanmugaratnam, director of the economics department at the Monetary Authority of Singapore (MAS), Singapore's de facto central bank, and Mr Patrick Daniel, editor of the Business Times.

The prosecution has argued that Mr Shanmugaratnam disclosed the growth estimate to two economists working with local securities houses who then passed on the figure to the Business Times.

If found guilty the five accused face a maximum two years' jail or a S$2,000 (£860) fine, or both.

Thais 'forced refugees home'

A senior Thai officer admitted yesterday that the 25,000 refugees whom the Thai military repatriated to Cambodia last week were returned against their will, AP reports from Chantaburi, Thailand.

Thai officials previously had said the refugees returned voluntarily. On Monday, the UN High Commissioner for Refugees lodged a protest with the Thai government, saying the repatriation put the lives of the Cambodians at risk and violated international standards.

Explosion rips Srinagar camp

An explosion ripped through an Indian army camp in Kashmir state yesterday, killing 13 soldiers and injuring seven, Reuter reports from Srinagar. Domestic news agencies quoted an army spokesman as saying the blast at Badamibagh base, in Srinagar, occurred while officers were inspecting weapons captured from Moslem separatists.

Two pro-Pakistan militant groups, the Jamiat-ul-Mujahideen and the Ikhwan-ul-Muslimeen, claimed responsibility.

NZ offer to repay Nauru

New Zealand said yesterday it would pay compensation to the Pacific island state of Nauru for environmental damage caused by phosphate mining, Reuter reports from Wellington. New Zealand, Australia and Britain jointly mined for phosphate until Nauru won independence in 1968.

Mr Don McKinnon, foreign minister, said Wellington and London would each contribute A$12m ($8.5m) towards a total compensation package of A$107m.

Burundi seeks 'intervention'

Mr Leonard Nyangoma, Burundi's interior and public security minister, yesterday appealed for foreign troop intervention to end tribal war in the central African country, Reuter reports from Brussels.

Tens of thousands of people have been killed since last October when renegade soldiers from the army, dominated by the minority Tutsi tribe, assassinated the country's first Hutu president, Mr Melchior Ndadaye.

IMF aid for Sierra Leone

The International Monetary Fund has approved loans totalling $163m for Sierra Leone after lifting its six-year ban on lending to the country, Reuter reports from Washington.

The loans follow payment of outstanding obligations to the lending agency facilitated by bridge financing by France, Norway and the US.

In a separate transaction, the IMF said it had approved a credit of $23m to support economic reform policies in the Central African Republic over the next year.

NEWS: INTERNATIONAL

Agriculture and industry begin to emerge from a thorny patch

Malawi sets its sights on a rosier future

Diversification pointing the economy forwards, writes Nicholas Young

Three passenger flights per week connect Malawi with mainland Europe, and each carries a hold full of roses.

Grown in 6.5 hectares of greenhouses on Lingadzi Farms, a few kilometres from Lilongwe's international airport, 16m cut flowers were exported last year, primarily to the Netherlands. Sales of 9m kwacha ($2m before the kwacha was floated), hardly begins to rival Malawi's receipts from tobacco, which still accounts for two thirds of export earnings but it shows a potential way forward for the Malawian economy.

Since independence in 1964, President Kamuzu Hastings Banda has concentrated on large-scale agriculture – tobacco, tea and sugar. This resulted in occasionally impressive growth figures which have been vulnerable to the vicissitudes of world prices, drought and the war in neighbouring Mozambique which cut the rail link to the nearest Indian Ocean port. Little of the export wealth, however, trickled down to the mainly rural population.

Diversification has long been desirable but the question was into what and how? Macadamia nuts have fractionally broadened the agro-export base, but the market for them is small and there are a growing number of international competitors.

Increasingly it is argued that attention should focus on a range of low-volume, high value horticultural crops. This will be one of the recommendations of an African Development Bank mission, which has been working with the trade ministry to identify industrial opportunities, markets and potential investors.

Mr Ramesh Ardikari, head of the mission, sees a future for crops with modest land demand, such as asparagus, if the government helps to provide air freight facilities.

The first requirement of such a focus, according to Mr Ardikari, is the right policy environment to attract investment. He sees February's lifting of exchange controls and authorisation for exporters to hold hard currency bank accounts as a step in this direction.

Ms Jenny Perepeckzco, general manager of Lingadzi Farms, says the move facilitated expansion plans. These include a new irrigation scheme and another 2 hectares of greenhouse, producing a further 4m roses per annum.

The liberalisation package came at a time of acute foreign exchange shortage, before the April tobacco auctions, and when many foreign investors had a backlog of dividends they had been unable to obtain the foreign exchange to remit, a rapid result was the effective devaluation of the kwacha by some 40 per cent.

New methods and crops are being introduced into Malawi's traditional agriculture sector of tea and tobacco

Mr Jerry Jana, director of the Malawian Chamber of Commerce, commented that "It's a large dose of medicine; some of us were not aware we were that sick."

The lifting of exchange controls was the latest stage in a process of economic liberalisation which has been going on for a decade.

First on the list of targets for structural adjustment was Admarc, the parastatal agricultural marketing board, which was divested in the 1980s of various subsidiary operations.

The softwood furniture manufacturer, Wood Industries, has been privatised while Malawi Railways is in the process of rationalisation before possible privatisation. The telecommunications network has been hived off from the Post Office and made to operate on commercial lines. It too may be sold.

Import liberalisation has also allowed rival goods into a local market which has been protected for local manufacturers and established foreign investors who are now seeking export markets.

Lonrho of the UK is the largest foreign investor with subsidiaries in agriculture as well as transport and motor vehicle franchises, it has a key position in the economy, not least through its monopoly of sugar production both for export and local sale.

If Lonrho decides to reduce its stake in Malawi, a likely buyer would be the country's own giant, the Press Group. With 20 subsidiaries and 12 associated companies in distribution, manufacturing, agriculture and financial services, including major shareholdings in both high street banks, the group's turnover last year of kwacha 1.5bn amounts to about a fifth the country's gross domestic product.

Such a concentration of economic power concerns World Bank economists, even though one privately admits that Press is "remarkably efficient." Restructured in the 1980s, the company has repaid loans ahead of schedule and has started to pay dividends to its ultimate shareholder, the Press Trust.

This shadowy body, intended to operate "for the benefit of the people of Malawi," has as its chairman President Banda himself.

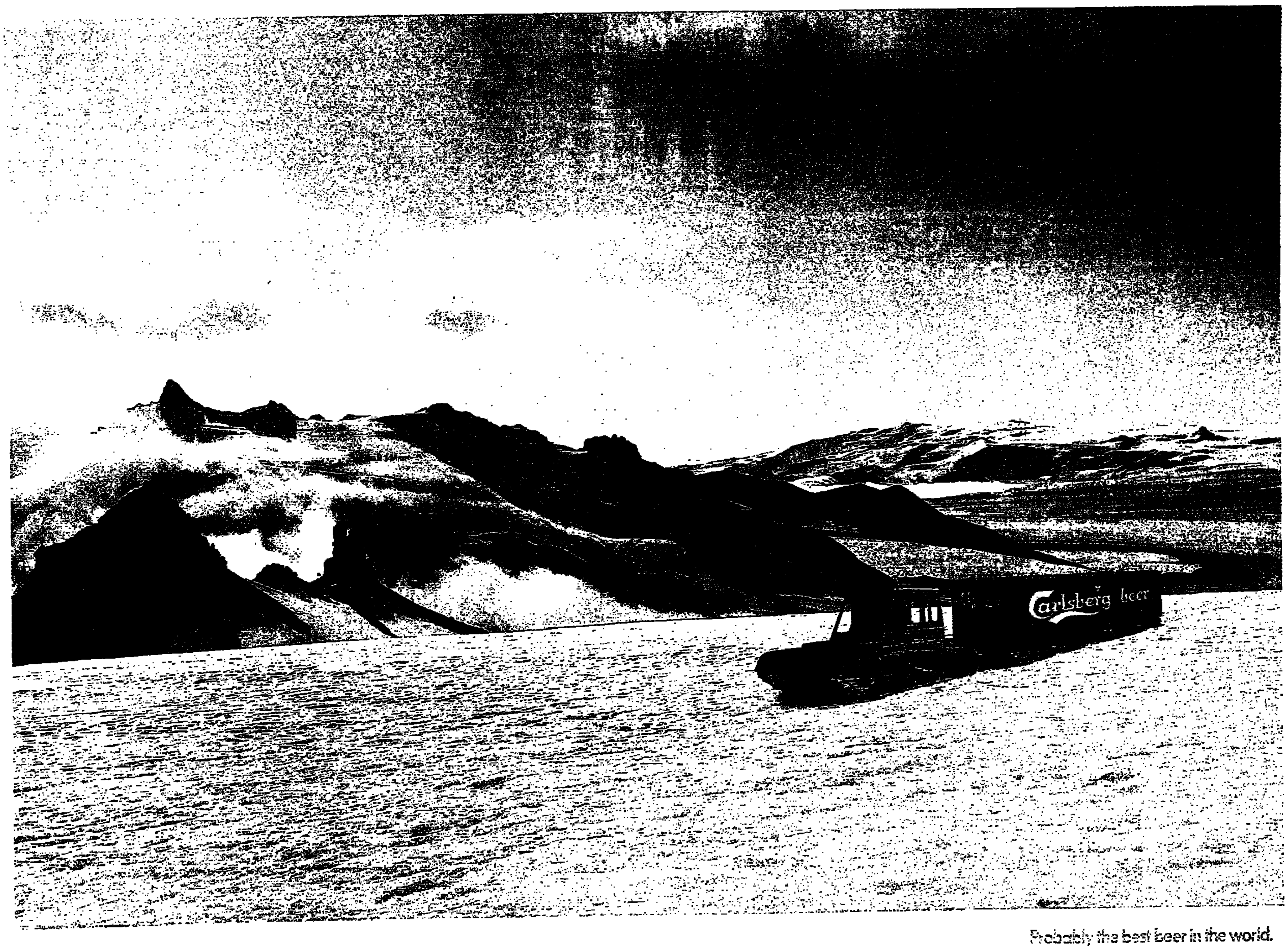
The only other declared trustees are Mr Louis Chimango, finance minister, and Mr John Tembo, the uncle of Dr Banda's official consort who is in effect his prime minister and also chairman of Air Malawi, Admarc, the main publishing house Blantyre Print, and the Press Group itself, as well as several of its subsidiaries.

None of the six opposition parties contending for power in the May elections suggest serious alternatives to the liberalisation programme.

There is no perceptible difference in ideology, only a deep seated suspicion, or envy, of the power which has accumulated along the Banda-Tembo axis.

Mr Watipaso Mkandawire, an economist in the Investment Promotion Agency, recently set up as a "one-stop shop" to facilitate the setting up of new companies, believes that the predominance of Press Group cuts two ways.

It can, he says, be very hard for Malawian entrepreneurs to break into areas where the group has dealings; but foreign investors may be attracted by Press' record of partnerships with firms companies British Petroleum, Carlsberg, and the Guardian insurance group, and by the possibility of using Malawi as a back door into South African markets.



Zedillo succeeds murdered Mexico presidential frontrunner

By Damian Fraser in Mexico City

Mr Ernesto Zedillo, a former budget and education minister, yesterday became presidential candidate of Mexico's ruling Institutional Revolutionary Party after his chief rival took himself out of contention.

Mr Zedillo, the campaign manager of murdered presidential front runner Mr Luis Donaldo Colosio, is now the strong favourite to win the presidential election on August 21. Mexico's governing party has been in power for the past 65 years, and is well ahead of the opposition in opinion polls.

Mr Fernando Ortiz Arana, president of the PRI, said yesterday that as the party head he should not favour one candidate over another, and therefore would not seek the nomination himself. Mr Ortiz Arana had been a favourite of the party rank-and-file, and in recent days had been openly backed by members of the party's old guard.

His decision paved the way for the nomination of Mr Zedillo, who was managing Mr Colosio's campaign until his assassination at a Tijuana campaign rally last Wednesday.

Mr Zedillo, 42, a US-trained economist, clearly represents the technocratic, pro-economic reform wing of the party. He is a protégé of President Carlos Salinas, and is likely to be supported by allies of Mr Colosio in the party. His nomination sends a clear signal of continuity with the economic policies of Mr Salinas.

Mr Zedillo became budget minister at the age of 36, and is widely admired for his intellect. After leaving budget ministry he became education minister, where he oversaw important reforms. He earned a PhD in economics from Yale University and has worked at Mexico's Central Bank.

However, Mr Zedillo has never held elective office, and does not inspire much confidence among the party traditionalists. He had been mentioned as a possible presidential contender last year, but was passed over because of his lack of political experience and insufficient support in the party.

He had been widely criticised as education minister for putting out school textbooks that revised the nationalist interpretation of Mexican history.

Mr Ortiz Arana emphasised the need for unity in the wake of Mr Colosio's assassination and his willingness to take himself out of the list of contenders makes it more likely the PRI will rally around Mr Zedillo.

Despite misgivings about Mr Zedillo's political talents, there has been no obvious alternative to him. Other eligible rivals either lack government experience, or are not viewed as loyal followers of Mr Salinas. Candidates in the government have been taken out of contention by Mexico's constitution, which prohibits ministers and governors from being nominated as presidential candidate six months before the election.

According to tradition, Mexico's president selects the candidate of the PRI after consultation with party leaders in a process known as *the dedazo* – or pointing of the finger. With Mexico in turmoil after Mr Colosio's assassination, Mr Salinas has to ensure that the chosen candidate does not provoke divisions in the party.

Meanwhile the government acknowledged yesterday that more than one person might have been involved in the death of Mr Colosio.

Mr Rene Gonzalez de la Vega, deputy attorney general, identified a second suspect as Mr Tranquilino Sanchez Venegas.

US economy surges as confidence rises

By Michael Prowse in Washington

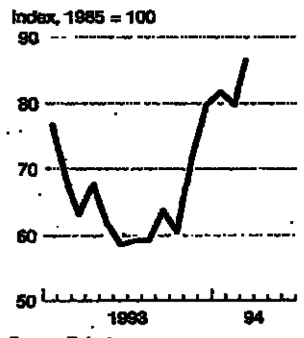
A sharp rise in consumer confidence this month to the highest level in nearly four years yesterday indicated that the US economy is again surging ahead after bad weather and other distortions temporarily slowed growth at the start of the year.

The Conference Board, a New York business analysis group, said its consumer confidence index rose nearly 7 points to 86.7 in March, the highest reading since July 1990, at the peak of the previous business cycle.

Separately, the Commerce Department reported early signs of a rebound in housing after disruptions caused by severe winter storms and the Californian earthquake. New homes sales rose 1.9 per cent last month and by 8 per cent in the year to February. This followed an erratic 22.5 per cent decline in January.

The confidence figures are the first clear sign that the economy may be back on the steep upward growth trend established in the second half of last year when real gross domestic product grew at an annual rate of more than 5 per cent.

US consumer confidence



Source: Datastream

Analysts are now keenly awaiting payroll employment figures for March, due out this Friday, for confirmation of faster growth. The consensus view is that about 250,000 new jobs were created this month, well above the average for last year. But some analysts are looking for an increase of 300,000.

If economic data for March do confirm rapid economic growth, the US Federal Reserve is likely to come under renewed pressure in financial markets to raise interest rates again. Last week the Fed signalled a second quarter-point increase in short-term rates to 3.5 per cent.

The consumer confidence index has risen 26 points in the past five months and is now at a level which, over the years, has foreshadowed an increasingly strong economy, according to Mr Fabian Linden of the Conference Board.

A sub-index measuring consumers' expectations of economic conditions over the next six months had risen particularly sharply – from 84.4 to 93.0.

The survey also revealed that most US consumers expect interest rates to rise further: 70 per cent of respondents said rates would go up again against against less than half six months ago.

The index is based on a survey of 5,000 households.

The rise in new home sales last month mainly reflected a sharp rebound on the west coast following disruption caused by the Los Angeles earthquake in January. Sales in the west rose 28 per cent after a 22 per cent decline in January. Sales in the northeast, midwest and south fell again last month, but by less in most regions than in January.

Most analysts expect a solid national increase in new home sales this month, reflecting more clement weather and mortgage rates that are still low by historical standards.

Clinton climbs back in poll ratings

By Jurek Martin in Washington

President Bill Clinton's exposition of the Whitewater affair at last Thursday's press conference has produced an immediate rise in public support, according to two polls released yesterday.

The same surveys also showed a public increasingly believing that the media is paying too much attention to the first family's financial dealings in Arkansas when he was governor and to the allegations that senior administration officials have sought to frustrate investigations into them.

The recent poll trend has seen Mr Clinton's approval rating slipping into the mid-40s. However, the Washington Post-ABC survey, conducted last weekend, had it back up to 57 per cent, a 10-point rise compared to last week. The CNN-Gallup-USA Today poll recorded a more modest two-point rise to 52 per cent.

The first poll found 54 per cent approving of the way the president was handling Whitewater, up from 32 per cent just three weeks before. Some 60 per cent thought he was "mainly telling the truth" while 55 per cent thought he had done nothing illegal and 51 per cent thought the same of *Mrs Hillary Rodham Clinton.*

The second poll, with slightly different questions, still detected a high level of public concern. Only 36 per cent answered he had done "nothing wrong," but this was up five points in three weeks.

The Post-ABC poll found 71 per cent believing the media was paying too much attention to Whitewater, while the second survey put that level at 55 per cent. It also found 54 per cent persuaded that the Republicans were "overreacting" to Whitewater.

Some news organisations have found themselves in controversy over specific aspects of their coverage of the affair. Newsweek magazine seemed yesterday close to an apology to Professor Marvin Chirelstein of Columbia University for possibly misrepresenting his views on the Clintons' tax returns, released last week. He said he was "simply outraged and humiliated" by a "biased" article in which he is quoted as saying Mrs Clinton must have benefited from a "sweetheart deal" in her commodities trading in the late 1970s.

Mr Robert Fiske, the independent Whitewater counsel, said he was "very upset and disturbed" by a cover story in Time magazine, which quoted sources on his team in its article on the role of Mr George Stephanopoulos, senior presidential aide, in the Whitewater affair. Such contacts, he said, had not taken place, but Time said it did not make up any quotes. The magazine was also criticised for its cover picture on the grounds it was taken in November, before Whitewater was a major story.

Mr Stephanopoulos has admitted his anger on discovering that federal regulators had hired Mr Jay Stephens, a Republican former US attorney frequently critical of Mr Clinton, to investigate the failed Arkansas savings and loan institution implicated in Whitewater. But his reaction has been defended by many in Washington. Mr Tom Foley, Speaker of the House, sarcastically suggested those who found anything wrong with it had invented a new standard of public behaviour – "the appearance of the appearance of impropriety."

RIDING WHITEWATER RAPIDS: (from left) Mrs Hillary Clinton, George Stephanopoulos, Tom Foley and President Bill Clinton.

Menem sacks watchdog

By John Barham in Buenos Aires

Argentina's President Carlos Menem has sacked the president of the national securities commission (CNV), claiming he had breached the confidentiality of his post.

Mr Martin Redrado had vowed he would not resign, insisting he was legally entitled to tenure until 1996 to insulate him from political interference.

Mr Redrado's dismissal was precipitated by his criticism of proposals by Merrill Lynch and CS First Boston of the US to handle the sale of $720m-worth (£493m) of stock in the privatised oil company YPF held by Argentine pensioners. He had attacked the commission rates for the sale.

Cardoso set for presidential run

By Angus Foster in São Paulo

Mr Fernando Henrique Cardoso, Brazil's finance minister, is expected to resign today in order to run for the presidency later this year. His likely successor is Mr Rubens Ricupero, a respected diplomat and former ambassador in Washington.

Mr Cardoso has been strongly pressured by his party, the Brazilian Social Democrats (PSDB), to run for the presidency, but he is leaving the finance ministry at a critical moment. An anti-inflation plan he has negotiated through Congress is not yet fully in force and may be undermined once he leaves. According to Brazil's constitution, he must resign by April 2 to run in the October polls.

Financial markets reacted calmly to the expected transition. Mr Ricupero was not Mr Cardoso's first choice as his replacement, but the former ambassador has said he supports Mr Cardoso's economic measures. He is also friendly with several of the leading economists in Mr Cardoso's team.

Mr Ricupero is well versed in economic affairs from his stint in Washington, where he was involved in Brazil's negotiations with the international financial community, and in trade matters. He was replaced as ambassador last year by President Itamar Franco who was annoyed at international reaction to a massacre of street children in Rio de Janeiro. Since then Mr Ricupero has worked as minister of the environment with responsibility for the Amazon.

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US waves flag for workers' rights in WTO

Negotiators encounter some bumps along the road to Marrakesh, writes **Frances Williams** in Geneva

Today's meeting of top trade negotiators was meant to tie up proceedings before the Marrakesh meeting on April 12-15 when the Uruguay Round accords on global trade liberalisation will be signed.

Since concluding the round last December, there have been three months of checking and polishing. Negotiators were due formally to nod through the 28 Uruguay Round texts (550 pages), 81 country tariff schedules (15,000 pages), 95 services schedules (2,500 pages), three (short) accompanying ministerial decisions and a political declaration.

It was, of course, too good to be true. Last week, the US set the stage for ill tempers at Marrakesh by insisting that worker rights are put on the agenda of the new World Trade Organisation, due to succeed Gatt next year.

Washington says it will not approve the ministerial *declaration* unless it contains a reference to early consideration of the relationship of the trading system and "internationally recognised labour standards".

This move, which flouts an understanding among negotiators not to raise new issues before Marrakesh, has irritated even trading partners sympathetic to the idea, such as the European Union. Developing countries, which are opposed to any discussion of worker rights in Gatt or the WTO, are incensed.

A protester is arrested in New Delhi yesterday during a demonstration against India signing the Gatt accord Reuter

This was almost certainly foreseen by Washington. However, the Clinton administration is under pressure from US labour unions to take a muscular stance against "social dumping" - the loss of trade, investment and jobs to low-wage countries.

Washington's interest in the issue is also long-standing. The US tried unsuccessfully to put worker rights on the Uruguay Round agenda and later, equally unsuccessfully, proposed a Gatt working party "to explore the possible relationship between internationally recognised labour standards and trade".

More recently, international pressure has grown from trade unions and politicians for a Gatt "social clause" to give teeth to the labour standards set by the International Labour Organisation. Gatt rules already permit countries to prohibit goods made with prison labour, but otherwise are silent on the subject.

The ILO's director-general, Mr Michel Hansenne, notes that there is an important distinction, often blurred, between the use of trade sanctions to enforce universal or "absolute" human rights – where the concern is or should be humanitarian – and the use of sanctions against countries alleged to be competing unfairly through low wages or working conditions.

Almost all those arguing for a Gatt social clause say they are not trying to remove the comparative advantage of low cost nations. Sir Leon Brittan, EU trade commissioner, says the focus should be on the ILO's core human rights conventions relating to child exploitation, slavery and other forced labour, and freedom to form trade unions.

Trade unions have pressed for a broader social clause covering minimum work safety standards and non-discrimination in the workplace.

US officials, for their part, remain deliberately vague. "We don't have a defined agenda or set views," said one Geneva-based US official this week. "But we do have a legitimate interest in discussing the issue with trading partners."

Developing countries are suspicious that industrialised nations are using a professed concern over human rights to cloak straightforwardly protectionist aims.

Their doubts are shared by Mr Peter Sutherland, Gatt's director general. In a robust speech this month he argued that drastic trade remedies against so-called social dumping were the wrong approach.

"Such politicisation of trade policy-making turns it into the equivalent of breaking off diplomatic relations or suspending aircraft landing rights," he said. Introducing it into the co-operative WTO framework "would place the system at immediate risk of collapse."

Behind these words lies the fear that the fragile North-South unity over trade forged in the Uruguay Round could be shattered, posing a threat to other issues on the WTO agenda. Developing countries were won over to talks on trade and the environment only after they were persuaded that they too had much to gain from coherent multilateral rules based on keeping the trading system open and non-discriminatory.

Mr Sutherland is keen on working towards a future agreement on foreign investment rules, where he sees a common interest between rich and poor nations, and for the organisation to become more involved in questions of trade and development.

The obstacles to putting trade and worker rights on the WTO agenda look formidable. Without an incentive to make discussing the subject worthwhile, developing countries have every reason to keep saying no.

Clinton may hit at China state business

By George Graham in Washington

The US is considering targeting trade sanctions at Chinese state-owned businesses if China does not move far enough to meet US human rights concerns, a senior State Department official said yesterday.

Mr Winston Lord, assistant secretary of state for Asia, said the US could leave private enterprises untouched and withdraw Most Favoured Nation trading privileges only from state-owned businesses if China did not make enough progress by the June 3 deadline to justify an across-the-board renewal of its MFN status.

Mr Lord said China had made progress in some areas, but would need to do more. "It is still possible to reach a credible outcome between now and June 3," he said.

A partial withdrawal of MFN could pose "definitional problems". But that solution could reduce the damage trade sanctions might cause to US businesses involved in trade with China, as well as to Hong Kong and Taiwan.

Mr Lord acknowledged the US had not spoken with one voice over China: "Mixed signals had been coming out of Washington. I don't think they've stopped." This, he suggested, happened partly because the end of the cold war had removed the overriding importance given to security issues in assessing foreign policy priorities.

In the past, top national security officials would tell the Commerce Department or the Treasury "to get lost" when they raised concerns about a trade or investment dispute.

"You know, don't bother us with these secondary issues. We're in a global struggle with the Soviet Union and we can't jeopardise our alliance with Japan over some silly trade dispute. Well, those days are over and they should be over," Mr Lord said. In the short term, this absence of a clear hierarchy of priorities often led to difficult trade-offs.

Swiss win Syria deal

By Ian Rodger in Zurich

Saurer, the world's largest textile machinery group, has won two turnkey cotton spinning mill orders from GOTI, the Syrian government's textile holding company, worth SFr135m (£63.5m).

The Swiss group said the orders, among the largest it had ever received, was part of a major Syrian programme to modernise its textile industry.

One mill, to be built at Lattakia, will produce fine yarn via the ring spinning process. Two Saurer German subsidiaries, Schlafhorst and Zinser, will supply 37 automatic package winding machines with 109 ring spinning machines and 37 speed frames, with a combined value of SFr55m.

The other mill, to be built in Idleb, will produce coarser rotor-spun yarns.

Aids drug price war in Portugal

By Peter Wise in Lisbon

Wellcome has cut the price of its Aids treatment AZT by 30 per cent in Portugal because of competition from a Portuguese company marketing a cheaper version in a challenge to Wellcome's worldwide patents, according to Portuguese officials.

Mr Jose Fleming Torrinha, director of the Sao Joao Hospital in Oporto, said Wellcome had made the cut in a bid for a contract to supply the hospital with 6,000 250mg capsules of Retrovir, Wellcome's version of AZT and its second biggest selling drug.

He said a small Portuguese company, Farma APS Productos Farmaceuticos, had lodged a rival bid to supply a Canadian-made version of AZT at 33 per cent below Wellcome's previous price. The hospital has not yet decided between the two proposals.

Wellcome said it was "amazed that Portugal as a member of the European Union is not prepared to respect our intellectual property rights in relation to Retrovir". It would take every action possible to protect those rights.

The company said it believed failure to respect intellectual property rights would hinder development of medicines.

Farma APS is marketing Apo-Zidovudine, a form of AZT manufactured by Apotex of Canada, which is already selling the drug in some Canadian provinces, Senegal, South Africa, Brazil and Venezuela. This is the company's first venture into a European market.

The Portuguese government has authorised sale of Apo-Zidovudine on the grounds that AZT is a drug in the public domain and that Wellcome's pioneering application of Retrovir to treat Aids did not give it the right to prohibit sale of other versions.

In addition, Portugal's patent law on drugs protects only manufacturing processes, not the chemical substance. This could make it more difficult for Wellcome to prove its patents have been infringed. Wellcome has been in a series of patent disputes with companies, including Apotex, over the right to sell AZT. So far, Wellcome has won a case in the US and has actions outstanding in Canada and France.

A 30 per cent reduction in the price of AZT would save the Portuguese state more than Es150m (£580,000) a year, based on total sales of about Es500m in 1993. Retrovir sales worldwide were worth £248m in 1993.

Wellcome is proposing to sell Retrovir to the Oporto hospital at Es423.5 a 250mg capsule compared with Es605 previously. Farma APS proposes to sell Apo-Zidovudine at Es405 a capsule. Portuguese hospitals bought 1m capsules of Retrovir in 1993. In Portugal, AZT is sold only to hospitals.

Ban on new sales in UAE mobile phone row

By Andrew Adonis

Mobile phone dealers in the United Arab Emirates face losses running into millions of dollars because of a precipitate decision by the country's state telecommunications monopoly to ban new customers from its mobile phone network.

Would-be subscribers in the UAE have been told to wait for the launch of a new, more expensive digital cellular network later this year, although the existing analogue network is believed to have spare capacity.

According to Middle East Mobile magazine, the announcement has left mobile phone dealers with useless stock worth around $5.4m for the analogue network.

Dealers are threatening to sue Etisalat for compensation.

Two digital networks, built to the pan-European GSM standard, are under construction in the UEA, one by AT&T, the US supplier, the other by a consortium of Motorola of the US and Siemens of Germany. Both will be operated by Etisalat.

Ice-cream clash with EU looms

By Robert Rice, Legal Correspondent

Britain appeared to be heading for a clash with Europe over competition policy yesterday after the Monopolies and Mergers Commission cleared leading ice cream manufacturers of anti-competitive distribution practices.

A nine-month MMC inquiry found that the practice of "freezer exclusivity" – providing free freezer cabinets to shops on condition they are not used to stock ice cream from other suppliers – did not operate against the public interest.

The commission found no evidence of excessive prices or profits being made in the sale of ice-cream for immediate consumption – so called "impulse ice-cream". It said recent trends in the market suggested competition had been effective irrespective of any effects of exclusivity.

But its conclusion that the tied offer of freezers to retailers did not constitute a barrier to market entry could bring the UK authorities into conflict with Brussels.

The European Commission is also investigating the issue of freezer exclusivity following a complaint from Mars, the US confectionery group, which entered the impulse ice-cream business in 1989.

Brussels has yet to rule on the issue but an early indication of its thinking came recently when it vetted the takeover by Unilever, the UK-Dutch consumer goods group, of Ortiz-Miko, France's third biggest ice-cream producer. The EC said freezer exclusivity was a serious barrier to market entry.

Disagreement between London and Brussels over the issue could force the UK authorities to back down throwing into doubt the practicality of Brussels' attempts to encourage greater subsidiarity in competition policy.

The MMC's conclusions were that exclusivity posed less of a problem than it had in 1979 when it last looked at the ice-cream market. Retailers now had more choice on the issue.

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Rank-and-file MPs' anger erupts over Europe votes

By Kevin Brown, Political Correspondent

Backbench Conservative anger over Mr John Major's handling of the European enlargement crisis exploded in the Commons yesterday as Mr Tony Marlow, a long-standing Euro-sceptic, publicly demanded the prime minister's resignation.

As glum Conservative MPs digested the compromise accepted by the cabinet, Mr Marlow told Mr Major: "No objective observer believes this so-called compromise has achieved anything of real value to the UK.

"As of now, you have no authority, credibility or identifiable policy in this vital area. Why don't you stand aside and make way for somebody else who can provide the party and the country with direction and leadership?"

The intervention galvanised the House of Commons, prompting roars of "resign, resign" from the opposition Labour benches, and shouts of dissent from Conservative loyalists.

Mr Major snapped back: "Anybody listening to what you have had to say, not just today but at any time over the last 2½ years, would in no sense suggest that you were an objective observer of any matters relating to the Community.

"I remind you that it might be a useful novelty if from time to time you were prepared to support the government you were elected to support."

Mr Marlow, the MP for Northampton North, followed up his attack by claiming later that Mr Major could be forced out of the party leadership before the summer.

The exchanges reflected bitterness among Euro-sceptic MPs, many of whom believe that the prime minister failed to deliver the strong defence of Britain's interests that he promised last week in the House of Commons.

Sir Teddy Taylor, MP for Southend East, said the agreement was "sad and humiliating", and warned that it would be opposed by some Conservative MPs when it comes before the Commons later this year.

Some rightwingers endorsed Mr Marlow's outburst, claiming that many MPs would like to see Mr Major replaced as leader. But others said that was likely to prove counter-productive.

The enlargement compromise was welcomed by many Conservatives as the best available deal. Mr Cranley Onslow, a former chairman of the 1922 committee of backbenchers, said the government would have the support of the vast majority of Conservative MPs.

Social policy view rejected by Brussels

By Kevin Brown, Political Correspondent, in London, and David Gardner in Brussels

The government was facing a further outbreak of problems over European enlargement last night after the Commission rejected Britain's interpretation of "assurances" on social policy.

Mr John Major, the prime minister, said the assurances met Britain's concerns that the health and safety provisions of the Treaty of Rome were being used to circumvent Britain's opt out from the social chapter of the Maastricht treaty.

But Mr Jacques Delors, president of the European Commission, said he had "simply clarified" the programme of the Commission for the present year. Mr Padraig Flynn, the social affairs commissioner, said there had been no concession on social policy.

Mr Major said the assurances meant that the Commission's use of the health and safety provisions would be restricted to measures directly relevant to health and safety at work.

He said this meant there would be no repetition of the Commission's attempt to use the health and safety provisions to impose a directive on working time, which Britain has challenged in the European Court.

The Commission had also accepted that the UK would be excluded completely from proposals under the social chapter of the Maastricht treaty. This would mean that the proposals to set up works councils would not be imposed on the British operations of transnational companies.

Mr David Hunt, the employment secretary, told the cabinet that the assurances would also block the imposition in Britain of three directives expected to be brought forward shortly by Mr Padraig Flynn, the social affairs commissioner covering discrimination in the workplace, part-time workers, and parental leave rights.

However, The British interpretation was flatly rejected in Brussels. Officials said Britain had asked for a written assurance from Mr Delors, but received only a tart "verbal reminder" that previously agreed procedures for social policy were written down in the EU treaty and in regulations – and remained so.

The UK's request was described privately by a Commission official as "simply intolerable."

"We are not going to let them imply that there is a trade-off in social policy," he said. "You can't negotiate concessions from the Commission on social policy; there are 11 other member states."

John Major faces hostile questions in the House of Commons after his EU voting statement

Investors say EU ties not vital

By David Goodhart, Labour Editor

Ninety-one per cent of foreign owned companies would not change their attitude to the UK if the government reduced its commitment to the European Union, according to a survey of 800 executives of foreign owned companies.

The survey, conducted for the accountants and management consultants KPMG, found that the size of the UK market is the main attraction for foreign investors.

But Euro-sceptics will find less support for the argument that Britain's low labour costs are a major draw.

Asked what reasons they would give for choosing the UK if they had to choose again, only 3 per cent cited cheap labour. In contrast 58 per cent said that it was a large and valued market.

Most of the executives praised Britain's workforce, industrial relations, training, and productivity, for being better than they expected. Similarly, the UK's infrastructure and transport exceeded expectations.

The UK is the most popular choice as European headquarters for non-European companies; over half of the US (56 per cent) and a third of Japanese companies (32 per cent) use the UK as their European headquarters.

Foreign owned companies in the UK. Available from Julie Cook, KPMG, 8 Salisbury Square, London EC4Y 8BB.

Britain in brief

UK beats Lisbon over Jaguar plant

The UK government is to pay £9.4m in grant aid to Jaguar, the UK luxury car subsidiary of Ford, to deter the US carmaker from moving the assembly of the next generation Jaguar XJS luxury sports car from the UK to Portugal.

The European Commission, which approved the aid yesterday, said that 883 jobs would be safeguarded at Jaguar in the UK by 1998 through the grant of regional selective assistance.

It is understood that Ford, which took over Jaguar in late 1989, had closely considered transferring the £187m sports car project to its plant at Azambuja close to Lisbon, where it also assembles the Ford Transit van.

The Portuguese authorities had bid for the project with a very attractive rival aid package.

PO seeks BP sell-off

The management of the Post Office is pressing for a partial sell-off of the organisation, in an attempt to dissuade the government from shelving privatisation as politically unacceptable.

The suggested scheme is the so-called "BP option", whereby some 30-40 per cent of the Post Office would be privatised.

City Airport misses link

The Docklands Light Railway, which links the City of London to the down-river office developments around Canary Wharf, has been extended beyond London City Airport.

The newly opened line takes the DLR to within a few hundred yards of the airport in east London but there is still no station at the terminal itself. It is understood that discussions are under way about bridging the gap.

Due to signalling delays DLR trains will not run direct from the City of London's Bank station to Prince Regent – the airport's nearest station. Passengers will have to change at Poplar.

Until direct trains are running, at the end of the year according to the DLR, a shuttle bus will continue to take passengers beyond the Poplar interchange to Canary Wharf.

Asian Age prints in UK

The Asian Age, a new English language broadsheet daily paper published simultaneously in Delhi and Bombay, is now arriving every day in the UK by satellite.

The move into the UK comes just five weeks after the launch of the new daily in India. The quality newspaper aimed at the 2m people of Asian origin in the UK is being printed on the same London presses as the London edition of the International Herald Tribune and is being distributed by the IHT.

800 sales agents suspended

Norwich Union, one of the UK's leading life insurers, has suspended 800 sales agents for a month to undergo an intensive retraining programme, after some breakdowns in management control were identified by the industry's regulator.

The move means that from midnight last night no one in the Norwich Union direct sales force will be able to give financial advice to a customer until he or she has successfully completed a retraining programme.

Some 600 of those suspended with effect from midnight are Norwich Union's direct sales force, and the remaining 200 sales agents work for companies which act as appointed representatives for the life insurer.

Mr Philip Scott, general manager of Norwich Union life and pensions, said that he did not believe any customers had been disadvantaged, since the company operated a quality control programme separate from the process of selling, in order to ensure that appropriate products were sold.

TELECOMS

Regulator seeks more competition

By Andrew Adonis

Mr Don Cruickshank, the UK telecommunications regulator, is dissatisfied with the weakness of competition in the UK industry and plans a raft of new measures to encourage competitors to British Telecommunications.

Mr Cruickshank intends to make the UK's regulatory regime more accommodating to companies planning new services, and to take a more active stance in policing the activities of existing operators.

BT, which commands nearly 90 per cent of the UK market, is likely to come under closest scrutiny by Oftel, the regulatory office which Mr Cruickshank heads. But cable companies building combined television and telephone networks in urban areas can also expect to have their activities examined.

In a report on future policy, included in Oftel's 1993 annual report published yesterday, Mr Cruickshank was sharply critical of the status quo.

"New entrants are not yet delivering the range of choice I am looking for," he said. "We cannot relax merely because licences have been issued and promises made ... we still have a long, long way to go."

Mr Cruickshank is impressed by the greater range of services on offer in the US. Oftel will publish studies comparing the range and quality of services in the UK with those of the US and France.

In a statement likely to cause concern at BT, Mr Cruickshank noted: "Oftel has a central role to play in removing barriers for new entrants. We may also consider setting entry terms to reduce such barriers to new operators where this will result in the building of sustainable and efficient competitive businesses."

Areas highlighted for Oftel scrutiny include BT's competitive practices and observance of its licence conditions, and the cable companies' adherence to the timetables agreed with Oftel for their networks.

The annual report shows a sharp fall in consumer complaints to Oftel, down from 41,026 in 1992 to 23,413 last year. Only 4,232 complaints were lodged over disputed accounts and 657 over standards of service.

Separately, BT and Mercury, its main competitor, have announced cuts of up to 25 per cent in the price of international ISDN services, used by businesses for data transfer and videoconferencing.

● The government signalled its concern yesterday at delays by US regulatory authorities in allowing British operators to compete in the US.

Lord Strathclyde, a junior minister at the department of trade and industry, told a telecoms conference in London: "In the US some interests seem to want to close off their market to international competition rather than see International Simple Resale (ISR) bring down tariffs."

ISR would allow new competitors to use leased international lines to provide a service connected to the public network in both the Us and the UK. The US authorities are blocking ISR pending lengthy studies of the "openness" of the UK telecoms market.

Emissary reassures Japanese investors

Paul Abrahams in Tokyo with the Lord Mayor of London on a world tour

Mr Paul Newall, the 59-year-old Lord Mayor of London, spent much of Sunday – in his own words – "hippo-like" with a wet towel over his head sitting in a traditional hot spring located deep in the mountains of central Japan.

For the next few days, this former Lehman Brothers institutional broker will be drier and rather more energetic. He is undertaking a punishing tour of Tokyo, Osaka and Kyoto in an effort to sell the City of London to the Japanese.

Mr Newall is viewed as a heavy hitter in Japan. Included on his travels will be visits to Mr Morihiro Hosokawa, the Japanese prime minister, as well as the governor of the Bank of Japan and the chairmen of some of the country's most powerful securities houses and commercial banks.

This, the first visit by a Lord Mayor to Japan since 1987, underlines the continuing importance of Japanese investment in the City, according to Mr Newall. "About 41 per cent of all Japanese investment in the EU has gone to the UK. We must continue to attract Japanese investment," he explains.

Paul Newell talks to prime minister Morihiro Hosokowa during the Lord Mayor's current visit to Japan promoting British business

"There are 48 Japanese banks and 37 securities houses in the square mile. In 1991, 21 per cent of all investment in City property was Japanese, although the figure has declined somewhat since then," he concedes.

Much of his time will be spent reassuring the Japanese about security, he says. "The IRA may be a problem of our own, but there isn't a single financial centre in the world that does not suffer from terrorism. The threat is not particular to London, as the World Trade Center bombing in New York sadly showed," he says.

Mr Newall stresses the success of the controversial traffic scheme, which, he claims, has achieved astonishing results. Every vehicle and driver passing through the eight remaining entries into the financial centre of London are photographed. "This is all about deterrence and risk reduction. We can't guarantee zero risk, but the measures do make the perceived risk to the terrorists unacceptably high," he argues.

An incidental consequence of the traffic scheme was that there was an 18 per cent fall in crime in the City and not a single armed robbery last year, he says. Traffic flow has also improved.

Mr Newall will also be emphasising the attractions of London. "I will be pointing out that London has become the financial capital of Europe. In every single aspect of financial activity London leads its continental rivals by a substantial margin and that margin is increasing. The City leads the world in foreign exchange dealing, external lending and international trading of equities and bonds," he said.

The UK offers tremendous advantages for investment, says Mr Newall. These include Europe's lowest corporate tax-rate, no exchange controls, a flexible labour force, the most efficient telecommunications hub in Europe, the best postal system, and what he refers to as the UK's sporting tradition – in other words lots of golf courses.

The transport problems afflicting London are played down by Mr Newall, although he agrees there have been some hiccups such as the delay of east-west crossrail link. "We cannot afford to have a second-class system in a first class city. But quietly there have been some significant improvements, such as the Limehouse link, Waterloo international station and the rebuilding of Liverpool Street station," he claims.

"Lord Mayors have had to spend an increasing amount of time abroad since the City found a new role as Europe's financial capital," says Mr Newall. Over the next few months, he will be touring South Korea, Saudi Arabia, the United Arab Emirates, Bahrain, the Yemen, Oman, Kuwait, Canada and the US.

BBC to supply Arabic TV

By Raymond Snoddy

More than 200 new broadcasting jobs are to be created in London following the announcement that the BBC has signed a 10-year agreement to supply a new 24-hours a day Arabic language tv channel.

The satellite channel aimed at the Middle East and North Africa will be launched within the next few months. The BBC World Service Television service is being financed by the Mawarid investment and industrial group of Saudi Arabia. The programme supply and distribution agreement, worth in the region of £200m, is with Orbit Communications Company, a Rome-based subsidiary of Mawarid.

The new channel was the subject of threatened litigation between the BBC and Mr Rupert Murdoch's Star TV, Hong Kong over geographical overlap. It is likely however that Star had wanted to terminate its contract with the BBC for some time and last week a compromise deal was done.

The BBC will vacate its slot on the northern beam of the Star system aimed at China in return for a extension on the south beam. This means the BBC will be able to continue broadcasting to India until 1995. World Service Television has recently signed a deal for a joint venture in Japan.

Smith New Court turns bonuses into golden handcuffs

By Andrew Jack

Smith New Court, the securities house, is attacking the longstanding City of London tradition of "take the money and run" by transforming annual bonuses into golden handcuffs.

The company yesterday announced a plan to encourage loyalty by paying staff part of their annual bonus in Smith New Court shares.

Individuals will only receive these shares if they are still employed by the company three years later.

One of the principal aims of the scheme is to stem the exodus of leading staff from Smith New Court. Last year, departures included its highly rated oil and banking analysts to Nomura and its utilities team to Barclays de Zoete Wedd.

Mr Michael Marks, chief executive, said last night: "This is partly about retention of staff. We are not ashamed about that. People were taking a large bonus and then trotting off to the next franchise.

"That can't be in the interests of shareholders," he said.

He stressed that the incentive scheme would also foster a greater sense of ownership by staff in the company. "It will hopefully give them a meaningful stake," he said.

Mr Marks said a small trial version of the scheme had run last year and only one of the 20 people involved had since left Smith New Court.

The shares will not be newly issued, as in many existing share option schemes. The cash that would otherwise have been paid out in bonuses will instead be used to buy shares from current shareholders.

In a circular sent to shareholders yesterday, the company is seeking authority for up to 15 per cent of its equity to be held in trust for this purpose.

Smith New Court is still deciding how much of the bonus will be paid in shares, although some insiders suggest it is likely to run to a maximum for more senior staff of up to about 25 per cent.

More than 90 per cent of staff at Smith New Court received bonuses last year.

Shareholders will vote on the plan at an extraordinary general meeting on April 20. It is also subject to final approval by the Inland Revenue.

The proposals come after a year of high bonuses paid by City of London institutions to senior employees.

Earlier this month, it emerged that BZW paid total remuneration including bonuses of more than £1m to up to eight of its directors.

Jobs: Renewed activity in the poaching of staff is leading to new ideas for linking loyalty to reward and ownership

Moveable feast for hungry dealers

Strong autumn bull runs in stocks and bonds have revived a recruiting instinct hitherto languishing in hibernation for much of the recession. Poaching has returned to the dealing rooms and the most successful lure, as always, is money.

The poaching of individuals remained sporadic in the recession and the defection of teams was beginning to look quite historical, one of those quirks that characterised the Lawson boom. Not so. Poaching in its rawest, most brutal form, is back.

Just how potentially destructive the practice can be was demonstrated in the case of the so-called "Lopéz warriors" who followed José Ignacio Lopéz de Arriortúa, the head of global purchasing at General Motors, to Volkswagen.

Unusually in such cases, GM and Opel, its German subsidiary, decided to fight the move, introducing allegations of industrial espionage against Lopéz for good measure.

While criminal investigations in Germany and the US relating to suspected industrial espionage, theft, perjury and wire fraud are still in progress, a Frankfurt civil court last month rejected claims that VW broke competition rules.

Nowhere, however, has poaching been more pronounced recently than in the securities houses and Smith New Court yesterday decided to tackle the problem squarely by creating financial shackles for many employees and transforming an element of the bonus into shares. The shares will be payable only if the employees are still with the company in three years time.

Smith New Court has yet to announce its profits for last year but this kind of reward cannot be paid out of fresh air. It is an expensive proposition because the company is going out to the market to buy shares. It is seeking approval from shareholders to hold up to 15 per cent of its equity in trust for bonuses. The shares will be treated as cash for tax purposes. This means that if, say, 100 shares were awarded, the employee would get 60, since tax at 40 per cent would be paid by the company on behalf of the individual.

The move demonstrates how sensitive investment banks are becoming to their employees walking out of the door.

What has tended to happen when a company loses a complete team of professionals is that the poached turns poacher, often paying higher salaries to re-recruit.

In the hot-house atmosphere of the dealing room there is often little scope for loyalty, hence the payment of high salaries and the treatment of people like commodities to be traded at the market price. The only difference is that companies do the buying and the people sell themselves.

Few have been more active than NatWest Markets, which has been recruiting heavily from competitors as it extends the operation it established 18 months ago on the bones of County NatWest.

Goldman Sachs has also been among the recent predators, luring the oils team from SG Warburg and taking two property analysts from NatWest Securities. The latter made its own move on Smith New Court's German analyst team and NatWest Markets recruited the sterling distribution team of six from Hoare Govett.

Trends influencing the activity are both seasonal and cyclical. Those in financial market jobs tend to move at the beginning of the year after bonuses have been paid. People become too costly at other times when prospective employers have to compensate them for their lost bonus.

This seasonal trend has been more pronounced this year, partly because the strong markets towards and at the beginning of the year led to renewed confidence among both employees and employers. The other reason is that, even though the markets have undergone a sizeable correction, the big dealing rooms are positioning themselves for increased activity to come.

Another influence is the emerging markets of South East Asia and the Pacific Rim. Expanding dealing rooms are drawing specialist operators from the more established European and US teams.

Changes in financial market jobs are also being influenced by the extent to which technology is advancing. Deryck Maughan, Salomon Brothers' chairman, revealed recently that out of $2bn dollars the company marked up in costs last year, some $450m was spent on technology.

Technological innovation has led to a market in backroom dealership staff as equally hectic although much less visible than that in the front offices. It has also led to the appearance of people termed mid-office staff, often technicians whose skill is to ensure the system works as efficiently and speedily as possible.

An official at one of the biggest firms said: "If volumes are exploding you can have any number of sales staff holding the phones, but if you can't process the deals in time eventually one of them has to say no to a client."

Joe Clark at Day Associates, a consulting company that provides salary information for the city and investment banking said that new systems for confirmation checking in banks and constant changes in information technology were creating recruitment opportunities at a time that many traditional banking administration jobs were disappearing.

The question that recruiters must address, particularly when poaching is an issue, is whether it is time to bring back the restrictive covenants preventing former managers recruiting their old teams or from taking customers.

Mark Watson, a partner at Fox Williams, solicitors, which specialises in employment law, says: "You can see poaching going on in nearly every part of the economy."

Courts, he says, are approaching such constraints as restrictive covenants, which companies have used to protect their interests in the past, with little enthusiasm.

If restrictions are imposed, he says, they must be applied selectively and sparingly. If courts are going to accept the argument that you are protecting a legitimate business interest, it is necessary to show that only a limited number of employees had access to what you may argue is confidential information.

The most effective covenants, he argues, are those on the non-solicitation of customers. The effectiveness of covenants on employees is more questionable. "The time is coming when employers may have to enforce covenants more rigidly," says Watson. Legal shackles, however, as Smith New Court has shown, are not necessarily the favoured answer.

The Smith New Court scheme is something of a departure from the deferred compensation deals that have become a growing feature of remuneration packages at such firms.

Salomon Brothers tries to keep its best people by paying a percentage of bonus in shares, not options, so that they have a direct incentive to maintain the performance of the company. The shares are held in trust for five years when they cannot be traded, but they belong to the employee and are redeemable at the end of that period whether the employee has left the company or not.

The idea behind the scheme is to encourage the feeling of partnership and ownership that existed before Salomon became a public company. Share allocation rangus from 2.5 per cent of bonus at the lower end to more than 50 per cent for higher earners. The scheme's strength can be gauged by the fact that 19 per cent of the company's equity is now held by employees.

At Goldman Sachs, where the partnership structure is maintained, the 161 partners must plough back their share of profits into the company where the capital is retained. When they retire or leave the company they receive a proportion of their capital and the balance over a five year minimum period. Partners were reputed to have received individual profit share-outs of $5m each at the end of last year.

The generous bonuses paid to other staff were not sufficient to maintain the loyalty of all. But one leaver, Michael Sherwood, the syndicate manager, returned to the fold soon after leaving to work for a private Swiss bank. Whether such retrospective loyalty will be rewarded with a partnership remains to be seen.

Richard Donkin

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APPOINTMENTS WANTED

PEOPLE

Non-executive directors

Sir Wilfred Newton (above), who will step down as chairman of London Transport when a successor is eventually found, has been appointed non-executive chairman of Raglan Property Trust.

The appointment follows a change of senior management at Raglan a year ago, when Keith Holman and Alan Fosler bought into the company.

Raglan, which is emerging from four years of losses, has a market capitalisation of about £42m. Its strategy is to build up its rental portfolio and trading activities and to develop a shopping mall in Banbury.

Sir Wilfred was invited to join Raglan's board as a result of connections made in Hong Kong. Sir Wilfred, a former chairman of Hong Kong's Mass Transport Railway and a non-executive director of HSBC, met Fosler and Holmes when they were working in Hong Kong for the Mass Transport Railway and HSBC.

Sir Wilfred, who is also a non-executive director of HSBC Holdings, Midland Bank and Sketchley, over from the Hon Charles Cecil, who has resigned from the board.

■ London Clubs International, the casino group, has stepped up its preparations for a flotation later this year by announcing the appointment of Robert Wood as a non-executive director.

The appointment of Wood, deputy chairman of John Laing, the construction company, brings the number of London Clubs' non-executives to five out of a board of nine.

In 1992, the group secured new licences for its London casinos, putting behind it the troubles which arose from a raid on its premises the previous year.

Since then, the company has acquired a new non-executive chairman in Sir Gordon Booth, a former senior diplomat and ex-director of Hanson. Alan Goodenough, a veteran leisure operator, joined as chief executive last year.

Sir Gordon says the group particularly wants to tap Wood's property expertise in the run-up to its listing.

■ Sir Iain Vallance, chairman of BT, as vice-chairman of The ROYAL BANK OF SCOTLAND.

■ John Kemp-Welch, joint senior partner of Cazenove who is about to become chairman of the London Stock Exchange, as chairman of The SCOTTISH EASTERN INVESTMENT TRUST on the retirement of Peter Runciman.

■ *Jim Maxmin, chief executive of Laura Ashley Holdings, at* BAA.

■ Sir Antony Pilkington is retiring from NATIONAL WESTMINSTER BANK.

Sir Gordon Jones will retire from HICKSON INTERNATIONAL when a new chairman is appointed.

■ Sir Christopher Harding is retiring from ENGLISH CHINA CLAYS.

■ Frank Quinn, former md of Fenwick, at ROPNER; David Ropner, a former president of the General Council of British Shipping, has retired.

■ Ian Curle, a director of Robertson & Baxter, and Derek Hall, a director of IDV Europe, at the NORTH BRITISH DISTILLERY COMPANY.

■ John Maxwell has resigned from USDC INVESTMENT TRUST.

■ Paul McWilliams, chairman of ACT Beecom and vice-chairman of Enterprise Ulster, as chairman of EWART.

■ Neil Jowell, chairman of Trencor, Cecil Jowell, joint md of Trencor, and Hennie van der Merwe, deputy chairman of W&A, and Raymond Hasson, chairman of W&A Investment Corporation, as chairman at AAF INDUSTRIES.

■ Brian Rowbotham has resigned from The ADSCENE GROUP.

■ Peter Byrom as chairman of LEEDS LIFE ASSURANCE; he has resigned from ADWEST.

■ Michael Hathorn at BAILLIE GIFFORD SHIN NIPPON.

■ Charles Gillams, chief executive of Turnpyke Group, as chairman at ATREUS on the retirement of Rodney Harnett.

■ Martin Bell, formerly senior partner of *Ashurst Morris Crisp*, at The LAIRD GROUP.

■ Harold Blumenthal has retired from PLATIGNUM.

■ Stewart John, recently retired engineering director of Cathay Pacific and president of the International Federation of Airworthiness, at Newall Aerospace, a subsidiary of B. ELLIOTT.

■ Michael Sheehy has resigned from XTRA-VISION.

■ Christopher Mills at BOLTON GROUP.

■ Brian Marsh, former chairman and chief executive of Nelson Hurst & Marsh Group, at N.I.B. (UK).

■ Ken Manley, chairman of *Country Choice* Foods and former chief executive and chairman of Campbell's in the UK, at GLOBAL GROUP.

■ Derek Silverton has retired from WIGGINS GROUP.

■ Angus Crichton-Miller, md of Rank's holidays and hotels division, at TRANSPORT DEVELOPMENT GROUP.

■ Peter Lewin has resigned from PREMIER LAND.

■ Richard Prickett has resigned from EXPLAURA HOLDINGS.

■ Sir John Caines, a director of the Investors Compensation Scheme and former permanent secretary at the Department of Education and Overseas Development Administration, at NORSK HYDRO (UK).

■ Howard Kitchner has resigned from TADPOLE TECHNOLOGY.

■ Sir Duncan Nicol, former chief executive of the NHS, at the PRISON SERVICE.

■ Roger Wood, finance director of George Wimpey, as chairman of GARTMORE Shared Equity Trust.

■ *Betty MacQuitty* has retired from ULSTER TELEVISION.

Sir Tom Cowie joins rival EMH

Sir Tom Cowie, 71, who stepped down at the end of 1993 after 45 years as chairman of the company he founded, seems intent on getting back into the motor trade business. He's been recruited as a non-executive director of European Motor Holdings where Roger Smith, 54, a past president of the Retail Motor Industry Federation, has just been made chairman.

Sir Tom has never been one to collect non-executive directorships and he says that he's limiting himself to EMH, where the chief executive is Richard Palmer, 47. Palmer *made his mark in the City by* selling Western Motor Holdings to Tozer Kemsley at a substantial profit in 1990 and he hopes EMH will be equally successful.

In terms of market capitalisation, T. Cowie is eight times the size of EMH but Sir Tom says that the board is "young and ambitious and so am I". Sir Tom, who owns just under 5 per cent of Cowie and remains life president, intends to buy a stake in EMH. He says that he's "one of those strange people who believe in putting their money where their mouth is".

Roger Smith, who has taken over from Jeff Bizley, goes back a long way with Sir Tom. *He is a former chairman of Tri*moco, which was taken over by Hartwell, and an old grouse-shooting chum. Even so Sir Tom's decision to join the EMH board has caused some puzzlement at his old firm. Sir Tom, for his part, will not comment on rumours that he was unhappy with the way he was gently edged out of power. All he will say is that "it's nice to join a happy camp".

In the City, news of Sir Tom's new job has had a mixed reception. One analyst says that Sir Tom built a large and very successful business but towards the end he was "spending more and more time on the grouse moors". And, he continues, it is "an absolute *travesty" to suggest that Sir* Tom posed any threat to his old firm.

■ *David Cranston*, chief executive of NORTHUMBRIAN WATER Group, will become chairman of its water and sewage subsidiary, Northumbrian Water Ltd., with effect from Friday following the retirement from the post of Sir *Michael* Straker.

Sir Michael, group chairman until last July, will sever his last link with the company in July when he retires as a non-executive director from the group board.

■ Bill Alexander, md of THAMES WATER Utilities, has been appointed to the main board.

■ Steve Philpott, formerly marketing director of Whitbread Beer, has been *appointed strategic marketing* director of WHITEREAD's restaurant and leisure division.

هكذا من الاصل

Steps to overseas experience

Most multinational companies want to give more of their managers international experience. But they are finding it harder, more expensive – and too slow – to do so by the conventional route: sending people to work for several years as expatriates in distant subsidiaries.

Companies can resolve the problem by becoming more catholic in the way they "internationalise" their executives, according to two business academics, Brooklyn Derr and Gary Oddou. One method they suggest is to increase the attractions of service abroad by moving more foreigners for limited periods to the prime seat of corporate power.

Another method, which also speeds up the process, is to give middle or senior managers experience of a region by sending them on three- to six-month trips to several locations within it, especially any which have been designated as business unit or divisional head offices.

A third more obvious approach, which is evidently growing, is to make membership of international task forces a part of managerial training and development. Philips, the electronics group, has done this for 20 years, say the academics in an article in the latest issue of *European Management Journal**.

In spite of their awareness of the "internationalisation" problem, many multinationals – more than half according to one survey – have no strategy for internationalising their managers.

Derr and Oddou in their own study of 105 European multinationals found that almost three-quarters believed importing more foreign nationals to corporate HQ was the key to their future internationalisation, while a quarter said the "import rate" would remain constant.

Christopher Lorenz

** EMJ Dec 1993. Pergamon Press. Fax (UK) 0865-60285.*

Just in time now just too much

Japan's plastics suppliers are leading a revolt against the much praised management tool, reports **Paul Abrahams**

Just in time, the Japanese management tool so widely admired and imitated around the world, appears to be failing in its country of origin. Components suppliers, straining under the worst recession since the second world war, can no longer afford to deliver small regular batches to customers.

Just in time, it seems, has become just too much. Complaints from suppliers about just in time have been voiced before in Japan and the US. But for the first time some Japanese groups are beginning to take action to break down the system.

The sector where the suppliers' revolt has taken greatest hold is the plastics industry. Hiromasa Yonekura, director of basic chemicals at Sumitomo Chemical, one of Japan's largest plastics manufacturers, explains: "Japanese customers became almost tyrannical in their demands. We just had to move away from just in time. It was just too expensive."

The theory of just in time, developed during the 1960s by the now legendary Taiichi Ohnowas, was that suppliers would make regular deliveries of small batches so that the required parts were available at the required time in the required amounts. This could cut inventories, reduce the need for storage areas and eliminate double or triple handling. At its best, inventory levels could fall by as much as 80 per cent in four months, according to Kiyoshi Suzaki, author of a best-selling work* on techniques for continuous improvement.

An additional benefit of this apparently rational system was that it shifted the cost of work in progress from the manufacturer to the supplier, allowing manufacturers to reduce the amount of cash tied up in inventory and so improve their cash-flow. Conversely, suppliers had to build up stocks to ensure they could provide the flexible deliveries required by customers.

During the 1980s, suppliers in the plastics industry tolerated the system because it strengthened the relationship between them and the customer. Once customers became used to a steady, dependable flow of materials from one company they were unlikely to go elsewhere for their components. The costs of additional freight and stock required for frequent small deliveries was bearable because during much of the last decade the Japanese plastics business was highly profitable. Demand outstripped supply, forcing up prices and profits.

Those heady days have passed. Demand for ethylene, the basic building block of plastics, has dropped 8 per cent over the past 12 months, while prices have fallen every year for the past four years. Styrene monomer, used to make polystyrene, has plunged from Y120 (76p) a kilo 2½ years ago to only Y60. Although raw material costs have fallen, most plastics manufacturers are losing money. The 12 largest ethylene manufacturers are expected to report combined losses during the financial year to March of Y51.6bn.

Given the falling demand in plastics over the past three years, the cost of small, frequent deliveries has become insupportable. However, up until now suppliers have been unable to end the practice.

The market clearly became a buyers' one, with supply exceeding demand. Any attempt by one plastics maker to end the just in time deliveries often led to loss of business.

The response of the plastics suppliers to this situation was typically Japanese. Orchestrated by the petrochemicals industry association, they recently decided to end just in time deliveries – all members were to stop the practice simultaneously. The first product area to be targeted was acrylics.

"Acrylic sheet was infamous for small deliveries, even within the plastics industry," says Yonekura. "We were sometimes having to make deliveries three times a day. The costs were exorbitant. Not only did you have to cover the cost of freight, but you had to carry larger inventory too." A further problem was ensuring the materials arrived on time, given the traffic congestion in Japan's big cities.

Manufacturers using acrylics were told deliveries would be limited to once a day. Additional deliveries were available, but only if paid for by the customer. "If we're compensated for the additional freight costs, we're prepared to do it. We're also charging extra for small deliveries, as well as supplies on Saturday and Sundays," explains Yonekura.

The acrylics buyers are also being encouraged to take larger quantities at each delivery. "For specialised materials we now require a minimum quantity," says Yonekura. The reaction of the acrylics buyers has not been enthusiastic, but they have accepted it, he adds.

"I'm sure the new system will be extended to other plastics products," says Yonekura. "The petrochemicals industry association is working out some sort of agreement at the moment."

Meanwhile, the plastics industry is being forced by the recession to compromise another principle embedded during the 1980s – supplying products that exactly meet customers' specifications.

Yonekura explains: "It was ludicrous. We used to offer 400 different grades of low density polyethylene and 400 different kinds of polypropylene. It's all very well matching their customers' specifications, but because we were producing such small batches, it raised our costs horribly. We've cut the number of grades to 300 each and we're looking to reduce even for more." Similarly Mitsubishi Petrochemical used to make 600 grades of polypropylene and polyethylene, but plans to reduce the number by 30 per cent.

Whether other sectors follow the example of the plastics industry remains uncertain.

The petrochemicals companies involved are part of extremely powerful organisations – known as keiretsu. These include industrial groups such as Mitsubishi, Mitsui, Sumitomo and Kawasaki which have the clout to impose fundamental changes in logistical practices.

More traditional suppliers, often small family-owned businesses delivering to large automotive or electronics groups, are less able to impose such changes.

**The New Manufacturing Culture, by Kiyoshi Suzaki, Macmillan, 1987.*

Prevention is key in tackling RSI

Peter Buckle looks at a TUC report on strategies for employers

A survey last year by Britain's Health and Safety Executive (HSE) revealed that there are almost 1m cases of musculoskeletal disorder in the UK, more than 60 per cent of which were thought to have been caused by work.

Treatment is difficult once the condition becomes established, so prevention is vital. The Trades Union Congress, the trade union movement's central body, acknowledged this by commissioning the University of Surrey to prepare a publication* on the subject, which will be launched in London today.

The publication says strategies should be aimed at those employees who are experiencing minor aches and pains or muscle discomfort and at those who are still trouble free.

To prevent the spread of Work Related Upper Limb Disorders, or Repititive Strain Injury (RSI) as it is popularly known, employers should be following recent European directives and implementing UK regulations. Broadly speaking there is a requirement to carry out sufficient workplace assessments; act on the findings to reduce risks; involve employees throughout the process; follow up any changes made.

The TUC publication identifies the three main areas in which employers can act: through a consideration of the design of each job, assessment of the needs of the worker and reviewing of policies for dealing with disorders.

The first implies a need to provide suitable equipment that fits the multifarious shapes and size of a typical workforce. Without such an objective some workers will find themselves working for long periods in awkward postures. Not only might this increase the risk of a problem developing, it is almost invariably less efficient with regard to work output and quality. One suggestion is to consult the end users of equipment before selecting new tools, furniture or technology, and purchase them after trials with workers. Good workplace design allows the worker's joints to be free from strain.

It is crucial that work is organised so that individuals are not at risk from factors such as too many tight deadlines or work that is too physically repetitive. To reduce this stress a culture of open communication between managers, supervisors and staff is important.

Any individuals working on tasks judged to pose some risk should be rotated to reduce the exposure time. Tasks that involve forceful or awkward postures, high concentration and/or which are highly repetitive should have inbuilt rest breaks to allow the worker to recover – regular breaks often increase productivity and quality of work.

Stress may contribute to the problem and can be caused by factors including workload, deadlines, control over work, and need to adapt to new technology.

When workers suffer from stress, this can show in physical symptoms, such as tense postures. Low job satisfaction may also be the result of a job that has not been designed to suit a worker's abilities. Consultation with experts may be required to improve the content of such jobs.

If workers are required to work to a set rate, then this should be based on realistic consideration of the job demands and individual worker capabilities and not solely on the capacity of the machines. Bonus incentive schemes, machine pacing or monitoring devices should not be used to encourage workers to push themselves beyond their capacities. Good design takes account of the fact that each individual has a different capacity.

The physical work environment can be a source of stress to workers. Standards and guidelines are set out in recent HSE regulations, particularly for display screen equipment users. Employees bear some responsibility for their own health and safety but it is up to the employer to ensure that they are not at risk from their work tasks or workplace environment.

** The TUC Guide To Assessing WRULDs Risks, price £5, is available from today from TUC Publications, Congress House, Great Russell Street, London WC1B 3LS.*

Dr Peter Buckle is head of the Ergonomics Research Unit at the University of Surrey.

BUSINESS AND THE ENVIRONMENT

Golfers happily putt away as Wessex Water's odourless Biogran granules are spread on the course

Jane Martinson looks at Wessex Water's plans to market freeze-dried human waste as soil fertiliser

Sewage in the supermarket

Unlikely though it may seem, a combination of European Union regulations and green consumerism could result in freeze-dried sewage sludge for sale in supermarkets.

This product idea, based on converting human waste into soil fertiliser, is a result of the response of Wessex Water, one of Britain's privatised water companies, to the EU's 1991 urban waste water directive banning dumping of sewage sludge at sea by the end of 1998.

A third of the 1.1m dry tonnes of sludge produced in Britain was dumped at sea in 1991; last year, 22 per cent was disposed of in this way.

The directive also demands an increased number of sewage treatment works to cover coastal towns by 2006. The amount of sludge produced by the treatment process is expected to double as a result.

The water industry has been forced to develop a number of processes – some more traditional than others – to deal with the sludge in a way which is environmentally acceptable and cost-effective. Clive Coombes, a process scientist with WS Atkins, the UK engineering consultants, wrote in *Water Bulletin*, a trade journal, last year: "Sludge treatment to produce materials that can be marketed at a profit is something of a Holy Grail for the water industry."

Richard Lacey, Wessex Water's divisional manager for waste water, says: "This is a problem for the whole of the UK water industry. Millions of pounds are being spent doing something about it."

Almost half of the UK's sewage sludge is now used to fertilise agricultural land. Liquid sludge is rich in phosphates and nitrogen. But it has a number of inherent disadvantages; chief among these are smell, a content that includes heavy metals and the ability to pollute water courses. It is also, in its bulky wet form, expensive to transport.

Wessex Water ended 25 years of dumping Bristol's sludge into the sea when it built a £7.5m biodrier 18 months ago. The Swiss-built equipment, four times larger than any other in Europe and the only one on mainland Britain, dries, pasteurises and sieves the fermenting sludge into odourless, even-sized granules of one-twentieth the volume.

The drying gases used in the process are recycled, as is 70 per cent of the heat used. Methane gas is produced by heating the fermenting sludge. The surplus energy created from this is sold to the national grid under the non-fossil fuel obligation, earning Wessex Water an estimated £1m a year.

The biodrier now produces between 30 and 40 tonnes of granules a day from 45 per cent of all Wessex Water's liquid sludge. The process means the end product is easy to transport. The company has reduced its lorry loads of sludge per year from 150,000 pre-biodrier to 100,000.

Most of Biogran, the name of the granules, is sold for use on agricultural land, but purchasers also include the Forestry Commission, British Coal (for use on land reclamation sites) and golf courses. In one of Wessex Water's promotional pictures, a group of golfers happily putt away while sludge is spread on the course.

At a cost of approximately £100 per tonne of Biogran, Wessex Water intends to make a good return on its initial investment. To help it do so, the company aims to branch out into the horticultural and domestic markets. It is holding talks with the Department of the Environment and the European Commission to redesignate the product as suitable for these markets. Biogran's use is currently controlled, along with other sludge products, by the UK department's sewage to agricultural land regulations.

According to Lacey, the biodrier process changes the nature of the sludge "beyond all recognition". Samples are currently being tested in Brussels, and Lacey says he hopes for a decision on the redesignation by the summer.

The company even plans to apply for an ecolabel, a badge of environmental approval for supermarket-type goods awarded by the UK ecolabelling board and replicated throughout the EU.

"We feel that we've entered the easier markets, so to speak, and have been successful. Now we want a chance to enter the harder horticultural and domestic markets," says Lacey.

So far, Wessex Water has built only one other biodrier for a water authority in Jersey, one of the Channel Islands. Other water companies have developed different methods to meet the EU directive.

Environment department estimates suggest that incineration will increase by the largest percentage after the sea option is no longer available. Thames Water awarded contracts valued at £125m last month for two incinerators to deal with the 4m tonnes of sludge being disposed of in the North Sea. The company said that deployment of the sludge to agricultural land was limited because of the lack of available land within the Thames region.

At Anglian Water, trials involving composting the sludge with other biodegradable materials such as vegetable or "green" waste are taking place. Peter Matthews, director of water services at Anglian, is an adviser to the Japanese sewage works association. He says that while technology there – able to convert sludge into material suitable for jewellery – is impressive, it is suitable only for large conurbations such as Tokyo. The Japanese, he says, are envious of the British capacity for sludge recycling on to the land. "In this country, we have very good opportunities for doing other land-based things with sludge."

WORLDWIDE WASTE

An Indian tale of two extremes

Big businesses are improving pollution control but small concerns remain far behind, says Stefan Wagstyl

The effluent from the Shriram chemical works on the outskirts of Delhi is so clean that samples are routinely passed through a fish tank. In seven years the plant has not killed a single goldfish and officials boast the waste is so pure they could drink it.

A few miles from Shriram stand the smoky workshops of about 20 dyers, full of steaming vats of colours and bleaches. The untreated wastes are poured straight into a ditch. Sultan Ahmed, who inherited his workshop from his father, says he never checks his waste. Nor have his neighbours ever complained.

The Shriram works and Ahmed's workshop are the two extremes of the management of industrial waste in India. Shriram Foods and Fertiliser Industries, controlled by a Delhi-based diversified group, is a model plant producing vegetable oils, caustic soda and chlorine. It was turned into a showpiece for the rest of Indian industry after a sulphuric acid leak in 1985 in which 500 people were injured. Today, it even has its own nature reserve.

Ahmed, meanwhile, is just one of millions of self-employed craftsmen in India who have not heard of pollution control, know nothing of the law on waste and have never seen an inspector.

Nobody knows how much industrial waste is poured into India's rivers. Data at the government's Pollution Control Board (PCB) is fragmentary and often out-of-date. The board's work mainly covers the country's large and medium-sized factories – and barely touches the small workshops which account for about one-third of India's manufacturing output. Moreover, even large plants evade the law – some publicly-owned enterprises secure protection from their ministries; some private companies pay bribes.

A common trick is to install pollution control equipment, but leave it switched off because of power shortages, breakdowns or deliberate evasions of the law. As Kapil Narula, a researcher at the Tata Energy Research Institute, a private think-tank, says: "With an average of only one inspector for 50 factories, it is easy for a company to get away with breaking the rules by paying money."

Public awareness of the danger posed by some industrial wastes and materials is low. In some parts of India, powdered DDT is still used instead of lime to mark white lines on roads – because the deadly pesticide, banned in many countries, is cheaper. D K Biswas, the PCB chairman, says: "We have to create greater awareness among workers and in the community."

Foreign companies which might think of locating 'dirty' industries in India would be wrong to believe they could save money

However, Indian pollution experts believe that standards of waste disposal – as of airborne emissions – are gradually getting higher, particularly in the large factories. In 1991, the PCB found that of 1,551 large plants with potential pollution problems, only 112 had installed adequate control equipment. By the end of last year, 1,119 of these factories had made the grade and 77 had closed.

Newly-built plants are required to have international-standard pollution control equipment. Foreign companies which might think of locating "dirty" industries in India would be wrong to believe they could save money on waste and emission control systems. Even foreign companies obtaining goods from Indian plants are obliged to take care. Indian environmental pressure groups are quick to establish links between wrong-doings in India and a foreign hand, however remote.

This awareness dates back to 1984 and the catastrophic gas leak in Bhopal, central India. More than 3,000 people were killed and more than 50,000 seriously injured when deadly methyl isocyanate gas escaped from a pesticide plant run by the Indian affiliate of Union Carbide, the US industrial group. The accident forced the government to pass an Environmental Protection Act in 1986 and make serious attempts at curbing pollution.

Large companies in pollution-prone activities – such as pesticides, textiles and papermaking – have made progress in setting standards and installing modern equipment. According to Biswas, the biggest remaining problems among large companies are with distilleries, because of the organic waste flushed into rivers, and with the smokestacks of fossil-fuel burning power stations.

Biswas admits that smaller companies are far behind in pollution control. "Many small companies have no idea what to do," he says. "Their options are to install equipment or to close. But very few have closed."

In a celebrated case, the Supreme Court last year ended years of litigation when it upheld the board's decision to force the closure of small metal workshops surrounding the Taj Mahal to save the monument from airborne dirt. But Biswas says that about 60 of the 212 workshops are still operating.

However, the widespread closure of small workshops in India is politically almost impossible because it would make millions of people destitute. So, the government is encouraging shared treatment plants in which clusters of workshops can invest jointly in common equipment. But even these will prove too expensive for many workshops.

Next week, Sweden.

Time to swat the fly on the wall

Christopher Dunkley seeks a change of direction in TV documentaries

It is time the phrase "fly-on-the-wall documentary" was banished. You can live for weeks with a fly on the wall and not notice it, but having a film crew in the kitchen is like living with an elephant; you cannot ignore it. Far from being inconspicuous, the camera crew, even with modern lightweight equipment, becomes the focus of activity wherever it goes.

It is nearly 40 years since Lindsay Anderson, Karel Reisz and Tony Richardson started the documentary movement known as "free cinema", and more than 20 years since Roger Graef, in making *The Space Between Words* for BBC2, made cameraman Charles Stewart shoot countless empty magazines before loading film, in order to make the presence of the crew in home, factory and so on seem so familiar as to be forgotten.

Then came *The Family*, Paul Watson's "elephant-on-the-floor" series about the Wilkins of Reading and, more recently, Watson's reprise, this time in Australia, with the astounding Noelene in *Sylvania Waters*.

The latest example is *The Living Soap*, a weekly BBC2 series which started last October and documents the lives of six students sharing a house in Manchester. There have been 20 episodes, but now the series is being virtually abandoned. There are plans for just two future documentaries in a more conventional style to round things off. The series was promoted as a "fly-on-the-wall soap-umentary" and it was the topical and continuing nature of the production which caused difficulties. Where most series are shot in their entirety, edited and then screened, *The Living Soap* was shooting and screening as life continued, and the outside world began to intrude.

Stones were thrown through the window of one of the black students. A story about the sex life of one of the girls was sold to *The Sun*. Those living in the house found themselves suddenly famous, unable to go to the pub or a lecture without being pestered by their viewers. The strain began to tell and, unsurprisingly, half the students walked out.

The Living Soap: series now virtually abandoned

It is hard to avoid the feeling that the hybrid techniques being used to film were hindering rather than helping. Sometimes the camera behaved as a supposedly discreet onlooker, but at other times the students directly addressed the camera crew. Even more riskily, one room had a robot camera which the students could use to go behind one another's backs to explain or complain.

But that is incidental. The important point is that although the fly-on-the-wall technique is presented to us as a means of getting at the truth about the way the subjects of a programme live, its true significance is as a means of getting the programme makers into the lives of the subjects.

If your object is the most honest and accurate portrayal of life, you would almost certainly get closest to this by moving in for six months with those concerned and then writing a drama. But imagine Paul Watson telling Noelene, "I'd like to come and live with you for six months then write a play about you". It has none of the seductive power of "Can I bring in a camera crew to film everything you do?"

BBC1 recently screened *Torvill and Dean: Facing the Music*, a documentary presumably intended to capitalise on Olympic gold and set the scene for the World Championships. As we know, T & D won bronze and decided to abandon their revived "amateur" career. Yet that scarcely weakened the appeal. Here was a programme which never pretended to be anything but a contrived artefact, which is as it should be since it was made by one of Britain's best documentary producers Edward Mirzoeff.

The script was important, the music counted, the distance of the camera from the subject was sometimes critical and, above all, the entire package was edited with tremendous care. The juxtaposition of sequences was often crucial.

Mirzoeff's own perceptions and sensibilities were clearly involved. The cutting between partner and spouse, the way in which the now celebrated training session was shot, with Dean's heavy handedness producing Torvill's tears, was carefully thought out. In the sense that it was so calculatedly crafted this was half way towards the condition of a drama: no one was pretending here that the footage was untouched by human mind.

It is conceivable that further truths might have been brought out by going the whole hog and creating an actual drama ("Art is a lie that tells us the truth," said Picasso), but then you would have lost the authenticity and impact that come from the real people. It is difficult to foresee a time when there will be a satisfactory substitute for this sort of classic documentary.

That said, the improvement in picture and sound quality available from camcorders – and their shrinking cost – has led to a new form of television exemplified excellently by *Video Nation*. Produced by the BBC's "access" outfit, the Community Programme Unit, they have given cameras to 55 widely assorted people in Britain who are recording aspects of their own lives. So far we have seen a compilation called *Money Money Money* in which the participants all covered that subject, and a sequence of much briefer clips involving a variety of topics.

It might be thought that by cutting out the professional camera crew you *must* get closer to the truth, and taking these contributions individually it seems almost certain that you do, though people are capable of lying even to themselves of course. But *Money Money Money* vividly illustrated the fact that editing can be far more important than any individual contribution.

The general impression left by this programme was not of a country now preponderantly middle class, with more people better off than ever before, but of contrasting extremes, with the emphasis on the unemployed and the poor. Nothing much wrong with that, but it does highlight an important truth: that the intention of the programme maker is 10 times more significant the technique.

Carol Vaness as Desdemona and Plácido Domingo in Verdi's Otello

Opera/**Paul Griffiths**

New York Met's Otello

The new Met production of *Otello* will not seem so very new to anyone familiar with Covent Garden's present staging. Once the company had decided to abandon a projected version by John Schlesinger, on the grounds that William Dudley's set would have been too complex for repertory exposure, it went to the Royal Opera team of Elijah Moshinsky as director and Michael Yeargan as set designer.

The result, while not quite a remake of the London production, has many of the same features, including especially the feel of Venetian painting: immense neoclassical columns that make the stage look like one of Carpaccio's spacious vistas, and a Titianesque sumptuousness of colour and texture in the costumes (by Peter J. Hall). When the Venetian ambassadors arrive, they do so as a strong forward wave of crimson brocade and fur, shamelessly spectacular.

Shamelessness and spectacle carry the weight of the production elsewhere too. Mr Moshinsky's handling of the crowd scenes is extravagantly busy and brilliantly managed: the slicing apart of the curtains at the beginning reveals a proscenium at once filled with activity in an exhilarating chiaroscuro, going up to a top level of soldiers and cannons.

Quite what kind of structure is being represented here is unclear, just as the architectural purpose of the grand columns is never fully explicit. The function of the sets is not to portray a city but to provide sufficient space and splendour for action, or contrariwise for the effective stillness, emptiness and isolation of the more intimate scenes. Otello and Desdemona are often pinned against the base of one or other of the pillars; the lighting examines them mercilessly. Only Iago has the freedom to wander and lean.

The reason for this production was to salute Placido Domingo on the silver anniversary of his first Met appearance, and his performance in the title role is all the more fascinating for its edge of frustration. The ring of brightness which we hear, for instance, at his first appearance does not come easily to him now – it has to be striven for.

In his solo after the eavesdropping scene he gives up the striving, and the voice becomes bleak, grim, heavily baritonal: the raw grain of the wood, without the polish. At other points the sense of strain can be either intense or exquisitely uncomfortable, but always it is just to the expressive moment.

The command holds, magnificently. And if we begin to notice the cost, it is not as vocal deficiency but as the cost exacted by the score on the wretched victim it makes its chief character.

It also suits the piece that the Iago, Sergei Leiferkus, should be effortlessly in control of his vocal equipment. His gentlemanly correctness begins by seeming perhaps even too finely modulated: evil, one may feel, ought to spit more, be more scarred. But this Iago is not evil, except in being the supreme manager. What delights him is regulation, efficiency, the ability to manipulate scenes and emotions. The "Credo", in which Mr Leiferkus does bare his tone and show us some vocal fangs, seems an act.

Carol Vaness's Desdemona is a less natural piece of casting. She is a mettlesome stage personality, and here she gives the appearance of a precarious restraint: left to herself she would surely be clouting Otello back. Nor is it just a matter of physical behaviour, for there is an evident carefulness too in her singing. She can produce beautiful sequences of rounded, gleaming melody in the middle-high register, soft and yet carrying; but the notes have to be held in place and warily balanced. It is a near miracle that they almost always are so, but one cannot quite believe in the purity, and without purity Desdemona has little going for her.

The other parts are paltry in this cruel opera, and they are adequately done.

The conducting, on the other hand, is far more than adequate. Valery Gergiev, normally associated with Russian repertory, proves he can be just as passionate about Verdi, and there are moments, notably the close of the third act, when the passion he encourages in the orchestra threatens to drown out even a stage full of voices. And so the orchestra, in its display, equals what we see on stage.

Extra space will be boon to Edinburgh

The new Festival Theatre in Edinburgh will make a welcome impact on the city's international arts festival this year, writes Martin Hoyle.

The new space will make it possible to present two blockbusters: the return of the Mark Morris Dance Group in *L'Allegro, il Penseroso ed il Moderato*, to Handel's music, and the British debut of theatre director *Luc Bondy*. His production of Peter Handke's *The Hour We Knew Nothing of Each Other* imports skateboarders, rollerskaters, Tarzan and Moses from Berlin.

Mr Brian McMaster, director of the 1994 festival, said yesterday that the new theatre will ensure that "there are better facilities in Edinburgh than at any other festival in the world." This year's festival is budgeted at £4.8m, £600,000 up on last year.

While the festival dance programme is "one of the biggest ever" there is evidence of more balance between rival art forms than in recent years. Theatre also includes a new Robert Lepage project at Meadowbank Sports Centre (last year's unexpectedly successful last-minute dance venue). *The Seven Streams of the River Ota* launches an enterprise scheduled to take two to three years, dealing with the impact on the world of the bombing of Hiroshima. Murrayfield Ice Rink is pressed into service for Aeschylus' *Oresteia* in a production from Moscow by Peter Stein.

Of the opera performances, the most exciting may be The Australian Opera's version of Britten's *Midsummer Night's Dream*, produced by Baz Luhrmann, the young director of the film *Strictly Ballroom*, and already rapturously received on its home territory. But the Festival Theatre is baptised appropriately by Scottish Opera on 15 August with *Fidelio*. Beethoven provides one of the musical themes this year, together with Chabrier, whose *Etoile* is accompanied by a new production from Opera North of *Le Roi Malgré Lui*.

Beethoven's nine symphonies and five piano concertos will field such performers as András Schiff, Richard Goode, Frans Brüggen, Alfred Brendel and Bernard Haitink.

Towards the Millennium/**David Murray**

Fumbles in the Thirties

Plunging on *Towards the Millennium*, the South Bank's bold survey of our musical century, encapsulated decade by decade in annual series, until the year 2000, is now deep into the 1930s (*Anxiety and Escapism*).

In this kind of exercise, hindsight is everything: the spring season in AD2000 will be guesswork, for somebody must identify the crucial works of the 1990s at rather short notice. Even the music of the 1930s still resists confident, God's-ear assessment.

When Simon Rattle and the CBSO played Stravinsky's *mélodrame Perséphone* (1933) and Walton's *Belshazzar's Feast* (1931) on Friday, were they presenting major works of the decade, or just Notable Misfires by Major Composers? The performances made a strong case for the latter reading.

The composer of *Perséphone* was never happy with it. He had loathed André Gide's woozily elevated text – "vers de caramel", he called it – and set it with a cool disregard for natural accents and scansion. Having heard a single run-through, Gide fled. Later, Stravinsky maintained that the proportions of his score had been geared to precise stage requirements (originally realised by the great Jacques Copeau), and were simply inapt for concert performance. Stravinskians nevertheless detect a rare vein of vernal innocence in this music, luminous enough to shine through its fusty format. In this performance we hardly felt it.

Rattle's general conception rang true, with the heroine (Ida Rubinstein's role) spoken by Claude Mathieu in faultless style. But the French diction of his multiple chorus – the CBSO's own and the LSO's, with junior choristers from Abbots Bromley, Tewkesbury and Lichfield Cathedral – was inarticulate and bland, too vague to enliven the rhythms and too smooth to let in much-needed fresh air.

As the priest-narrator Eumolpus, Nigel Robson was admirably musical and sensitive, without making us forget that he was replacing another tenor whose brighter, sweeter timbre might have been a decisive asset.

The net result was beta-blocker plain and pallid. It sounded the more so in retrospect, perhaps, since Walton's nervy, flashily "barbaric" cantata followed hard on its heels. In fact, *Belshazzar* seemed long past its sell-by date, though provincial choruses still aspire to meet its raucous demands.

It was no help that Rattle, who hates conventional bombast, took it so swiftly and brittly. Professionally fervid bombast is what it *needs*; he managed too little of that to conceal the holes between Walton's crafty effects.

What we had instead was flatulent rhetoric without lyrical force, tiny modernisms stuck on to safe harmonies, and emptily florid baritone solos needing something more than Stephen Richardson's decently solid delivery.

Can't we just admit that this commission caught Walton on the wrong foot, and did him no favour beyond transient success? So far as British music went in the 1930s – not very far! – any firm influence from *Belshazzar* would have been reactionary, even downright pernicious.

INTERNATIONAL ARTS GUIDE

■ COLOGNE

Philharmonie Tomorrow: James Conlon conducts Gürzenich Orchestra and Cologne Opera Chorus in extracts from Parsifal, with Ben Heppner in title role. Fri: Cologne Musicus Chorus in Bach's St John Passion. Sat and Mon: Ballet Teatro Espanol de Rafael Aguilar in a flamenco programme (0221-2801)

Opernhaus Tonight, tomorrow: Jochen Ulrich's choreography of Peer Gynt. Fri, next Mon: Peter Grimes, with Ben Heppner in title role. Sat: Rigoletto with Alexandru Agache and Leontina Vaduva. Sun: Yevgeny Onegin with Galina Gorchakova (0221-221 8400)

Schauspielhaus A new production of Brecht's The Good Person of Szechuan, directed by Günter Krämer, opens tomorrow. Repertory also includes Camus' Caligula and Krämer's radical version of Fiddler on the Roof (0221-221 8400)

■ COPENHAGEN

Royal Theatre Tonight: Boje Skovhus song recital. Next Tues and Fri: Il barbiere di Siviglia. Next Wed, Sat: Fidelio (tel 3314 1002 fax 3312 3692)

■ DRESDEN

Semperoper Tomorrow: Salome. Fri and Mon: Parsifal. Sat: Ariadne auf Naxos. Sun: Don Giovanni (0351-484 2323)

Kulturpalast Sat, Sun: Stefan Soltesz conducts Dresden Philharmonic Orchestra in Tchaikovsky's Second Symphony and Dvorak's Eighth (0351-486 6666)

■ DUSSELDORF

Deutsche Oper am Rhein Tonight: Fiddler on the Roof. Tomorrow, Sun: Turandot. Sat: Entführung. Mon: Swan Lake. Tues: Stravinsky ballet evening. Next Wed: Parsifal (0211-890 8211). Duisburg Theater has Le nozze di Figaro tonight, Heinz Spoerli's ballet A Midsummer Night's Dream tomorrow, Die Zauberflöte on Fri, La Cenerentola on Sat and Giselle on Sun (0203-300 9100)

Schauspielhaus Repertory includes Eugene O'Neill's Mourning Becomes Electra, Lorca's The House of Bernarda Alba, Shakespeare's Troilus and Cressida, and Johann Strauss' Die Fledermaus (tickets 0211-369911 information 0211-162200)

■ FRANKFURT

Oper Sylvain Cambreling conducts special Easter concerts on Fri and Sun pairing Berlioz's Les Nuits d'Eté (Isabelle Vernet) with Act 2 of Tristan und Isolde (William Cochran and Janis Martin). Cambreling also conducts Herbert Wernicke's new staging of Bartok's Duke Bluebeard's Castle on Sat and Mon, with Henk Smit as Bluebeard and Katherine Ciesinski as Judith. A new production of Peter Cornelius' comic opera Der Barbier von Bagdad opens on April 10 (069-236061)

Alte Oper Budapest State Opera presents Johann Strauss' Der Zigeunerbaron daily till Mon (069-134 0400)

English Theater Kaiserstrasse A new production of Arthur Miller's 1991 play The Ride Down Mount Morgan has just opened, and runs daily except Mon till May 21 (069-2423 1620)

■ GOTHENBURG

Konserthuset Tonight: Yevgeny Svetlanov conducts Gothenburg Symphony Orchestra in Mozart's Symphony No 40 and Rimsky-Korsakov's Scheherazade (031-167000)

■ HAMBURG

Staatsoper Tonight, Sun: La traviata with Tiziana Fabbricini as Violetta. Tomorrow: Fidelio. Fri: Siegfried with Gabriele Schnaut, Heinz Kruse and Robert Hale. Sat: Le nozze di Figaro. Next Mon: Götterdämmerung with Gabriele Schnaut, George Gray and Matti Salminen. Tues: L'elisir d'amore (040-351721)

■ HELSINKI

Finnish National Opera Next Mon and Wed: Nicolai's comic opera Die lustigen Weiber von Windsor. April 10, 12, 13: guest performances by Deutsche Oper, Berlin (0-4030 2211)

■ LEIPZIG

Gewandhaus Tonight: Frieder Bernius conducts Stuttgart Baroque Orchestra and Chamber Choir in Telemann's Brockes Passion Oratorio. Tomorrow, Fri (Thomaskirche): Georg Christoph Biller conducts Gewandhaus Orchestra and Thomanerchor in Bach's Matthew Passion, with soloists including Emma Kirkby and Frieder Lang. Sat: Krzysztof Penderecki conducts MDR Symphony Orchestra and Cracow Philharmonic Children's Chorus in Penderecki's Utrenia I and II. Sun: Baumann Quartet plays chamber music by Haydn, Cherubini and others. Mon: Neues Deutsches Collegium plays symphonies and concertos by the Bach family and Mozart (0341-713 2280)

Opernhaus Tomorrow: first night of new production of Zar und Zimmermann (repeated April 3, 13, 21). Sat: Don Giovanni. Tues: choreographies by Uwe Scholz (0341-291036)

■ LYON

● Pina Bausch's Tanztheater Wuppertal presents her latest choreographies at the Opéra tonight, tomorrow, Sat and Sun. Dawn Upshaw and Olaf Bär give a song recital next Wed (tel 7200 4545 fax 7200 4546)

● Martha Argerich and Mischa Maisky give a recital for piano and cello next Tues at the Auditorium (7860 3713)

■ MONTE CARLO

PRINTEMPS DES ARTS

The spring festival in Monaco opens on April 2 with the first of three performances of a Fokine triple bill by the Monte Carlo Ballet. Riccardo Muti conducts the Orchestra of La Scala Milan on April 7, and Gustav Leonhardt conducts the world premiere of a long-forgotten Requiem by Biber on April 8. The Monte Carlo Philharmonic Orchestra gives concerts under Lawrence Foster on April 10 and 17, under Erich Bergel (with piano soloist Peter Frankl) on April 24 and under Marcello Panni (with soprano Katia Ricciarelli) on April 28. Other concerts feature the Debussy and Alban Berg Quartets, cellist Yo Yo May, pianists Alexis Weissenberg and Paul Badura-Skoda, and the English Chamber Orchestra. The festival runs till May 8 (tickets 9216 2299 information 9315 8303)

■ MUNICH

Staatsoper Tonight, Sat, next Tues and Sat: Ivor Bolton conducts Richard Jones' new production of Giulio Cesare, with Ann Murray, Kathleen Kuhlmann, Trudeliese Schmidt, Pamela Coburn and Christopher Robson. Tomorrow: choreographies by Hans van Manen, Uwe Scholz and Jiri Kylian. Sun: Meistersinger Mon: John Cranko's ballet Onegin (089-221316)

■ STOCKHOLM

Royal Opera Tonight, Mon: La boheme. Tomorrow: Natalia Makarova's production of La Bayadère. Sat: world premiere of Doctor Glass, new two-act opera by Arne Mellnäs, libretto by Björn Hakanson after a novel by Hjalmar Söderberg's (tickets 08-248240 information 08-203515)

Rotundan Tomorrow: Royal Opera stages world premiere of Peter Bengtson's new chamber opera Jungfruma (The Maids), based on the play by Jean Genet. Nine further performances in April (08-248240)

Konserthuset Tonight: Royal Stockholm Philharmonic Orchestra presents an all-Lutoslawski programme, with piano soloist Gerhard Oppitz (tickets 08-102110 information 08-212520)

■ STRASBOURG

Palais de la Musique Tonight, tomorrow: Theodor Guschlbauer conducts Strasbourg Philharmonic Orchestra and Chorus in works by Schubert and Brahms, with vocal soloists including Hans Peter Blochwitz and Tom Krause (8852 1845)

■ STUTTGART

Staatstheater Tonight, Fri: Renato Zanella's ballet Mata Hari, music by Shostakovich. Tomorrow: Don Giovanni. Sat, Mon: Der Rosenkavalier with Ellen Shade and Helmut Berger-Tuna. Sun: ballet mixed bill (0711-221795)

ARTS GUIDE

Monday: Berlin, New York and Paris.
Tuesday: Austria, Belgium, Netherlands, Switzerland, Chicago, Washington.
Wednesday: France, Germany, Scandinavia.
Thursday: Italy, Spain, Athens, London, Prague.
Friday: Exhibitions Guide.

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NBC/Super Channel: FT Business Today 1330; FT Business Tonight 1730, 2230

MONDAY
NBC/Super Channel: FT Reports 1230.

TUESDAY
Euronews: FT Reports 0745, 1315, 1545, 1815, 2345

WEDNESDAY
NBC/Super Channel: FT Reports 1230

FRIDAY
NBC/Super Channel: FT Reports 1230
Sky News: FT Reports 0230, 2030

SUNDAY
NBC/Super Channel: FT Reports 2230
Sky News: FT Reports 0430, 1730;

Ian Davidson

Russia policy is vital

EU entry alone can guarantee eastern Europeans' independence

It is hard to imagine how the 12 governments of the European Union could have wasted so much political energy over four miserable votes in the Council of Ministers. This is supposed to be a Union of like-minded European countries with common interests. Don't they realise the issue they should be worrying about is developing a coherent policy towards Russia and its former satellites? Apparently not.

Russia is the really big issue facing western Europe, and it demands a European strategy. But Europeans are doing what they have done for 50 years: hoping the Americans will take care of it.

Unfortunately, US policy towards Russia and its neighbours veers erratically from one simple-minded nostrum to another. Not long ago, US policy was committed wholly to friendship with Russia, to the neglect of its former satellites. The peace of the world would hang on the reform of Russia at home and its stability abroad – so that was where the US should invest its energies.

Since the Russian elections *last* December, the wishful thinking behind this policy has become apparent. Russian nationalists are on the rampage; leading economic reformers have been forced out of government; and Mr Andrei Kozyrev, the previously pro-western foreign minister, has started echoing the new rhetoric of nationalism. In recent days there have been two rumours of coups threatening the Yeltsin regime.

Now the balance of the argument in Washington has swung right round: the idealists and the advocates of friendship with Russia are under sharp attack from the realists and the advocates of containment. Mr Zbigniew Brzezinski, a former US national security adviser, has derided the pro-Russian policy as "romantic", and has called on Washington to support Ukraine's independence, so as to prevent a resurgence of Russian imperialism. Under assault for his Russia-first policy, President Clinton has started paying more attention to Russia's neighbours, beginning with invitations to the leaders of Ukraine, Georgia and Kazakhstan.

This US antithesis between *friendship and containment* is too one-dimensional to be much help in framing policy. In fact, it may not much matter what America's policy is, because the US cannot really have much influence on events in the east. Containment is not a real option, because neither Congress nor the White House would be prepared to pay for it. American cold war geo-strategists may imagine they can again contain the Soviet threat, but they are playing anachronistic power games.

The US will not extend its security guarantee beyond western Europe's existing borders

It is absurd to ask whether Russia is a friend or an enemy; the Russians themselves may not know what they are because they are at the epicentre of a vortex, an earthquake, a field of force. But unless or until it breaks up into a collection of tiny bits, Russia will be an enormous geopolitical mass exerting enormous gravitational force on its surroundings. Any piffling Western attempt to deny, merely by force of moral indignation, this Russian sphere of influence is doomed pitifully to fail.

We do not like the way Moscow destabilised "independent" Georgia and Belarus back into the Russian orbit; but did we do anything about it? No. Will we do anything to protect the independence of Ukraine? No. Or the Baltic states? Be serious. It may prove impossible to challenge Russia inside the borders of the former Soviet Union at an acceptable risk to our interests.

The only place we can hope to counteract the gravitational pull of Russia is in eastern Europe; and the only way we can do it is to extend our own sphere of influence. In practice, the Russians may not want to take back their eastern European empire piecemeal. But if we want to prevent the danger, we must extend our western empire into the east. The "we" in this context is western Europe, it is not America, and it is not Nato. The US has already made clear it will not extend its security guarantee beyond the existing borders of western Europe. So if we want to guarantee the independence of the eastern Europeans, we can only do it only by bringing them into the European Union.

Ah, you will say, but we are already committed to the principle of admitting them: the 12 said so at their Copenhagen summit last June. Any day now the Poles and the Hungarians will deliver formal requests for membership. And the German government has said it will be pressing hard to open up the Union to the east Europeans, starting during its presidency of the Council in the second half of this year.

But this extension eastwards cannot be politically neutral. The expansion of the European Union may be less threatening to the Russians than the expansion of Nato. But it is still a challenge to the Russian sphere of influence through an expansion of the western sphere of influence; and it will require the mustering of a European foreign policy towards Russia and its neighbours, not as an episodic, optional, rhetorical extra, as in the Maastricht treaty, but as an unavoidable, operational, federal necessity.

The voting argument has distracted attention from the more important fact, that we are moving into a qualitatively new phase in the integration of Europe. Enlargement to the east means that we shall have come to the end of the step-by-step process launched by Jean Monnet. Instead, the member states will have explicitly to commit themselves to the principle and the practice of a truly European foreign policy; they will, for the first time, have to define the final state of the European Union; and they will have to rethink its constitutional arrangements from the ground up.

UK guidelines on shopping centres are causing confusion, say **Neil Buckley** and **Vanessa Houlder**

Out of town, out of favour

It has 19 car parks with space for 10,000 cars, shops covering the area of 20 football pitches, and an annual turnover of £300m. A high-tech monorail whisks people between the glass-vaulted shopping centre and the retail "sheds" surrounding it.

Merry Hill in the West Midlands is typical of the large out-of-town shopping centres that sprang up in the 1980s. It has devastated the retail trade of nearby Dudley. A government-sponsored survey last year found Dudley town centre had lost 70 per cent of its trade since Merry Hill was completed in 1989, and 11 other town centres had suffered at least limited impact.

Merry Hill is not an isolated example of such a development in the UK. Five shopping centres of a similar size, together with *28m sq ft of superstores* and retail sheds, have been built since 1980, in a swing to edge-of-town and out-of-town retailing that has changed the UK landscape. In that time, out-of-town retailing's share of retail sales has risen from 5 per cent to 25 per cent.

This trend has shown little sign of abating. For the first time, out-of-town shopping centre space proposed by developers – at 7m sq ft – now exceeds that proposed for town centres, according to chartered surveyors Hillier Parker.

But much of that may not be built. In two sets of planning guidelines for local authorities and a series of speeches, environment secretary Mr John Gummer has signalled tougher restrictions on "sheds on the by-passes". He says he wants to revive and rebuild the UK's decaying town centres.

That could have important implications for retailers, many of which have strategies concentrating on out-of-town expansion, and the construction industry, for which continuing retail development has been one of the few lifelines during the recession.

Mr Gummer's philosophy is simple: "I want to see us improve the quality of our towns so that we can reduce pressures of urban sprawl and the development of green-field sites," he told the Town and Country Planning Association in January. Out-of-town development "echoes the drive-in philosophy we see across the Atlantic, where people mourn the loss of Main Street".

Yet there remains widespread confusion among retailers, developers and local authorities about the Department of the Environment's real aims. The British Property Federation, a body representing landlords, says Mr Gummer's recent statements run counter to the government's attempts to introduce greater certainty into the planning process.

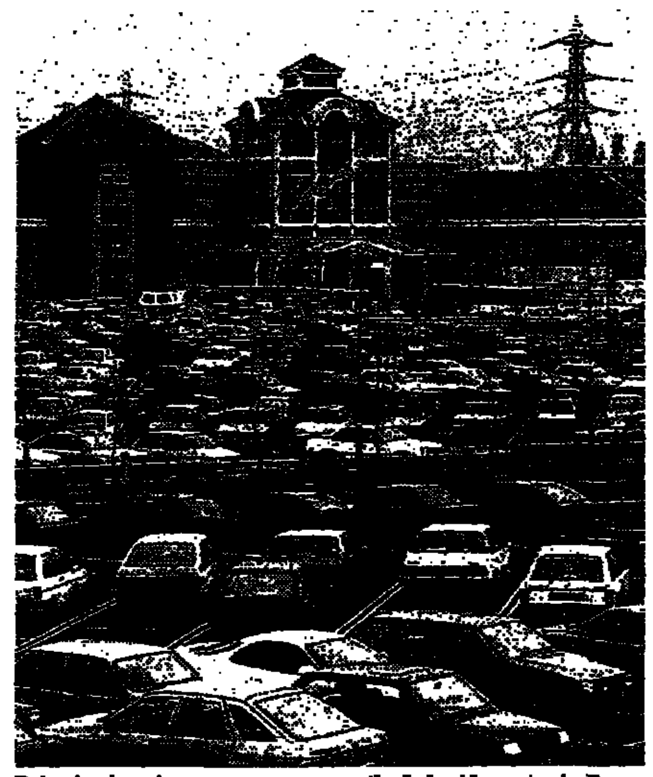
The reason for this confusion is the difference in tone between the government's guidance notes, which are *designed to direct local* authorities in making planning decisions, and Mr Gummer's speeches.

Retail planning guidelines – PPG6 – published last July were relatively mild. They called for "a suitable balance in providing for retail development between town centre and out-of-centre retail facilities". Developments should be vetoed only if there was "clear evidence to suggest that the result would be to undermine the vitality and viability of [the] town centre".

The second set of guidelines, *PPG13*, published *this* month dealt mainly with transport policy, and the need to reduce car journeys and encourage alternative means of travel. Only two of the 132 paragraphs specifically covered retailing, and they suggested the July note gave definitive guidance.

Nevertheless, Mr Gummer has repeatedly emphasised his determination to bring lasting changes to the UK's retailing and urban landscape, often going beyond PPG6. He has promised a series of initiatives on improving town centres, and told the Town and Country Planning Association that he had asked the DoE to alert him personally to any developments threatening urban centres. If the July guidance was not effective, he suggested, "I will have to consider whether a revision to that guidance is necessary".

As if to demonstrate his resolve, Mr Gummer recently vetoed two out-of-town projects – a shopping centre at Duxford, and an edge-of-town supermarket at Ludlow, Shropshire – although several other developments have been approved without problems. How strong his commitment is to curtailing out-of-town development may become clearer through the outcome of forthcoming planning appeals.



Drive-in shopping: cars converge on the Lakeside centre in Essex

But retailers and developers believe they can deploy strong arguments to persuade him to soften his position. They may get their chance through the Commons environment select committee, which begins an inquiry next month into shopping centres and retail development.

One argument likely to be presented is that the swing to out-of-town shopping has not been a whim of shops and property companies, but a response to customer demand – which will not evaporate. "A policy that does not recognise commercial realities is not sustainable," says Mr John Bullough of Grosvenor Estates, which spent five years on proposals for the Duxford scheme rejected by Mr Gummer.

Ending out-of-town development will not in itself stop the deterioration of town centres, say Mr Gummer's critics. "We cannot turn the clock back," says Mr Clive Lewis, president of the Royal Institution of Chartered Surveyors. "If retail parks on the edge of particular towns are denied permission, then the customer will simply drive to an adjoining town and take away business from the first under-supplied town."

Retailers such as Boots and Marks and Spencer, moreover, argue that, in addition to developing out-of-town sites, they have helped fund town centre management schemes, in which the local authority appoints a manager to promote the centre. In Oxford and Liverpool, for instance, Marks and Spencer have seconded store managers to such posts, and is spending £½m a year on town-centre projects.

Revitalising town centres needs investment, but often it has taken the development of a competing out-of-town retail centre to spur authorities into taking action, says Mr Geoffrey Smith, managing director of planning consultants Nathaniel Lichfield & Partners.

Retailers may also argue that out-of-town retailing can be more *environmentally* friendly than town-centre shopping. One trip a week – or less – to an edge-of-town superstore may involve a customer driving fewer miles than several trips to a local supermarket would.

Taking account of the force of these arguments, and after scrutinising the government's guidelines, the consensus among planning experts is that the impact of Mr Gummer's initiative may be less than some observers have predicted.

They say the Department of Environment *is* likely to end further development of large retail shopping centres such as Merry Hill, or Lakeside in Essex, as they can be shown to have a damaging effect on nearby town centres. But Bluewater Park, a proposed £300m scheme at Dartford, and Trafford Park, a £200m development near Manchester, may squeeze through. Bluewater is seeking a funding partner; Trafford Park's fight for planning permission goes to the Court of Appeal on May 16.

Observers also suggest that getting permission may become more difficult for smaller shopping centres and groups of stores in retail parks: extending existing out-of-town developments is likely to be easier than building new ones. Superstores and warehouses selling groceries and bulky goods, however, are less likely to be affected, as good reasons can be given for siting these next to car parks, out of town.

Another consequence could be that retailers and developers are pushed towards reclaiming derelict land, where the potential benefits would make it difficult for local authorities to refuse planning permission.

But even if the pace of out-of-town retail development slows for a few years, planning experts believe the rise of the retail shed and the green-field mall is not over for ever.

"My view is that planning policy revolves rather than evolves," Mr Smith, of Nathaniel Lichfield, told a Retail Week conference last week. "The pendulum is clearly swinging towards town centres, but it will swing back towards out-of-town in five years."

LETTERS TO THE EDITOR

Number One Southwark Bridge, London SE1 9HL

Fax 071 873 5938. Letters transmitted should be clearly typed and not hand written. Please set fax for finest resolution

Governance which displays apathy and inertia

From Mr Trevor Harvey.

Sir, One has to question whether the chairman of the Building Societies Association does his members a service by arguing for the status quo in relation to the corporate governance of building societies (Letters, March 22).

He is, of course, correct in pointing to the need for members' approval for the adoption of new powers and the part played by members in the election of directors. The message your readers are meant to draw is that the current system of building society governance is alive and well.

One wonders, what proportion of members vote, either for resolutions or directors? Since the current legislation was introduced in 1986, how many societies' boards have been constrained from operating any new powers through their resolutions being rejected? How many directors nominated by existing boards have been initially appointed since 1986? How many directors nominated by members have been elected in that time?

The answers to such questions would provide perspective and add some factual basis for the accountability debate. What they will point to is a system of corporate governance which exhibits apathy and inertia among the vast majority of members, with boards almost without exception getting their way. Effectively, it is a corporate governance vacuum. And where a vacuum exists, something will fill it.

The Building Societies Commission has already had one go at trying to apply Cadbury's plc-based recommendations to building societies and is now reconsidering the issue. The Treasury is currently considering building society legislation as part of its deregulation initiative. In this regard, some societies have welcomed proposals which would lead to even lower levels of member participation.

Most members who have ever attended the typical building society AGM couldn't tell the difference between its orchestrated proceedings and those of a Tory Party Conference. If that is what is to pass as evidence of effective accountability and good corporate governance in practice, some people are easily pleased.

Trying to perpetuate an unadulterated system based on largely 19th century ideals of mutual self-help is a delusion. Societies are running the risk that the vacuum might be filled with something they will not like and surely would not have designed for themselves.

Trevor Harvey,
director of resources,
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Dual voting system has harmful repercussions

From Mr Stuart Bell.

Sir, As demonstrated at last Friday's Lonrho annual meeting, even the most tin-pot dictator would be hard-pressed to come up with a voting system as undemocratic as that used by most UK companies. Using the present system, the board can choose to accept the vote at the meeting (taken on the basis of one vote per member) or to invoke the dead-weight of institutional proxies to win the vote on the basis of one vote per share.

The dual voting system is a recipe for confusion and disillusion with the corporate governance process. It both disenfranchises small shareholders who know that institutional proxy votes can almost always outvote them on a poll, and dissuades institutions from exercising their votes in an informed manner independent of the board, since they know their proxy votes will remain undisclosed and unused except in the rare instances when a poll is called.

In our view, the system needs to be rationalised so that one vote per share is the norm, as in the US. While this would favour institutions, the counting and disclosure of proxy votes should encourage them to develop – and publish – voting policies, as the Cadbury committee recommended. With a clearer responsibility for voting, institutional investors would devote greater efforts to scrutinising the board's proposals rather than acting as a rubber-stamp as is too often the case at present.

If voting on a show of hands were abolished, small shareholders would lose some influence, but in practice their voting rights are already minimal, given the spectre of polls which can be called at the chairman's discretion. They could anyway still attend AGMs and question directors.

Stuart Bell,
research director,
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Well, not really so amazing

From Mr Peter Breen.

Sir, I can't help but reflect that some purveyors of new technology get a little lost in their own cleverness. A recent advertisement for a mobile phone suggests we should prepare to be amazed "... you can actually answer the phone with your voice".

While not particularly amazed, perhaps your readers, like myself, can be comforted that our method of using the telephone, as established by Eddison all those decades ago, can continue, despite the heady pace of the telecommunications revolution.

Peter Breen,
Christmas Place,
Edenbridge, Kent TN8 5PR

In-depth study would show a different picture of Jersey

From Ms Imogen Nicholls and others.

Sir, Your survey on Jersey (March 22) was far from being an in-depth study into the current state of the island.

Its principal weakness lies in its focus on the same old faces that have dominated the scene for much of the past 30 years. Their version of reality paints a glossy picture of financial probity, political stability and a general state of well-being that contrasts with the rest of the world. In this respect, the text mirrored the photographs, carefully contrived to avoid reference to the unpleasant side-effects of uninhibited growth such as over-population; pollution stemming from rising volumes of domestic waste and an over-intensive agricultural system; ugly architecture which has greatly diminished our heritage; price inflation; the complete absence of consumer or labour protection; and the subversion of the democratic ideal.

As newly elected politicians, we are greatly concerned that the Bailiff, an unelected Crown Officer, should use the FT survey to criticise the recent measure to provide politicians with a very modest allowance to cover their living *costs*. We have no doubt that it suited the Bailiff, and many like him, to have in place a system which precluded the vast majority of islanders from standing for office.

For decades the States of Jersey has been dominated by land owning and small business interests. Old-boyism and incompetence have been rife. At the 1993 elections, the voters opted for a new breed of radical politicians committed to an agenda of social reform and environmental protection. These voices have, by and large, been ignored by an intentionally anti-democratic *power structure.*

Confronted by an electorate that is *hungry for* change, the old guard is fighting back by refusing to share out power through the committee system of government, and by clogging up the law-drafting process with legislation catering to the needs of international finance capital. The message is loud and clear: we can do anything we like as long as we do not interfere with the status quo. So much for democracy.

Imogen Nicholls, *deputy,*
Stuart Syvret, *senator,*
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FINANCIAL TIMES

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Wednesday March 30 1994

A chiaroscuro election

Nothing in Italian politics is ever quite what it seems. On the face of it, yesterday's election result represents a decisive break with the past of muddled and corrupt coalition governments as well as a stunning victory for the right-wing Freedom Alliance spearheaded by media magnate Silvio Berlusconi. In reality, it is neither so novel nor so decisive.

Although Mr Berlusconi posed as a harbinger of Italy's renewal, his business career – involving close links with politicians now on trial for corruption – reflected much that was wrong with the way the country was run in recent decades. While the electorate has clearly signalled its disgust with the old order by plumping for a man who has been in politics barely four months, it also confirmed a fact common to other democracies: that voters choose politicians who tell them what they want to hear.

Even the Freedom Alliance's absolute majority in the lower house may turn out on closer inspection to be fuzzier than it looks. The three parties of which it is composed make such implausible bedfellows that it is hard to see them forming a stable or durable government. Moreover, the tensions among them – between the corporatist MSI/National Alliance and the economically liberal Forza Italia, or between the federalist Northern League and the centralist, southern-based MSI – do more to underline the problems facing Italy than to identify common ground for solving them.

When a government is eventually formed, those problems will be as acute as ever, and the options for addressing them every bit as constrained as those that have guided the technocratic coalitions of the past two years.

A new prime minister will find no escape from the financial reality of a budget deficit only just under control and a public sector debt still climbing. Any deviation from the arduous course of fiscal adjustment charted by the outgoing Ciampi government will be instantly punished in the bond markets, with rapid effects on domestic interest rates and growth. The first test will come almost as soon as the new government takes office, when it considers, as it must, how to deal with a worrying overshoot on the deficit revealed last week.

If that government's leader is Mr Berlusconi, he will find his task made no easier by his election trail slogans of lower taxes. This pledge is not compatible with Italy's current fiscal predicament. Now that power is almost within his grasp, he needs to swallow it and concentrate on the stark choice his country faces. On one side is the long, hard climb towards fiscal respectability and integration with Europe; on the other, a slide towards Latin American-style financial collapse. If a Prime Minister Berlusconi chooses the former, he will be well placed eventually to deliver the economic transformation he has promised, since his victory comes just as the European economy is turning. If not, his political career will prove an ephemeral phenomenon.

Ice cream wars

The Monopolies and Mergers Commission seems largely oblivious to the realities of Britain's membership of the European Union, to judge by yesterday's report on the use of exclusive freezer cabinets to sell ice cream. The report skates over the fact that EU competition authorities are currently investigating the identical issue in Ireland. Nowhere does it hint that the MMC considered conferring with Brussels before reaching its own conclusions.

This is no minor oversight. The separate inquiries into ice cream distribution clearly create the potential for a jurisdictional clash between EU and national competition laws, and between the regulatory authorities charged with administering them. There is no certainty that Brussels' eventual decision and that of the MMC will concur. If they do not, regulatory uncertainty will be in prospect. If they do, it will be due to coincidence. That is no way to run a competition policy.

The MMC's insistence that it must consider the issues "solely in the circumstances of the UK market and in the context of domestic legislation", while technically correct, is myopic. The fact is that when EU and national law conflict the former prevails. Even if conflict is avoided this time, it is increasingly likely to arise in future restrictive practices cases.

As markets grow more competitive and product lives shorten in most industries, manufacturers everywhere are seeking advantage by tightening control over marketing and distribution. That increasingly requires competition authorities to define the line between legitimate commercial strategy and anti-competitive behaviour. Simultaneously, the single market is prompting more companies to supply all of Europe from fewer plants. As the resulting flow of products across borders grows, more competition cases will fall within EU law, which takes precedence when trade between member states is in question.

Brussels is seeking to lighten its workload by encouraging national courts to judge more cases on the basis of EU law. That seems a sensible aim, in line with the broad principle of subsidiarity. But jurisdictional confusion will only increase unless the domestic laws applied by national competition authorities are also aligned with those of the EU. The longer the British government delays doing so, the less seriously will be taken its protestations that it wants effective competition policies and its complaints about interference from Brussels.

The role of the MMC also needs to be re-thought. It has already surrendered to the EU much of its authority over mergers. Recent trends point to a similar decline in its monopolies workload. The government could usefully ask whether the MMC's current resources are justified, and whether it should not be co-ordinating more closely with Brussels, where power over competition policy increasingly lies.

The Zulu factor

South Africa's nightmare came a step closer on Monday. In the past, the country's political leaders have stepped back from the brink, but with an election barely a month away tensions are rising.

The country's Transitional Executive Council, effectively South Africa's ruling coalition between President F.W. de Klerk and Mr Nelson Mandela's African National Congress, is understandably tempted to take drastic action to ensure stability. One option is to declare a state of emergency in Natal, send in the security forces and effectively depose the man they hold responsible for the crisis: Chief Mangosuthu Buthelezi, chief minister of KwaZulu homeland and leader of the predominantly Zulu Inkatha Freedom party.

Chief Buthelezi has decided to play the ethnic card, and it is a dangerous one. Zulus are by no means a monolithic voting bloc and it is probable that the ANC commands the allegiance of the majority of the electorate in Natal. But deeper passions are at play: a sense of nationhood, a wounded pride, a violent and belligerent past. Chief Buthelezi can readily exploit these characteristics, creating a situation in which political preference takes second place to blood loyalties.

It is not illegitimate to base a political party on such an appeal. Ethnic loyalties remain a fundamental factor in African politics. The danger of such appeals come when they cannot be accommodated by the country's constitution. Chief Buthelezi is admittedly an infuriating negotiating partner and, judging by his administration of KwaZulu as a *de facto* one-party state, is not a democrat by nature.

Yet his power to damage South Africa is out of proportion to the number of votes he can command. He cannot be allowed to exercise a veto over South Africa's search for a stable democracy. But the constitutional options which might lead to his participation in elections have not been exhausted. All parties have already agreed to submit the problem to international mediation. Little has been done, however, to put this agreement into effect.

Until this is done, the TEC should stay its hand. There may come a time, if Chief Buthelezi refuses to co-operate, when government needs to intervene in the interests of ensuring an orderly election in Natal as well as elsewhere. But premature action could lead to disaster.

Such advice runs counter to the prevailing mood in a country where politics has become a blood-sport conducted with as much subtlety as bear-baiting. There are those in the ANC anticipating a once-and-for-all victory over an adversary they loathe, taunting Chief Buthelezi with the threats of tanks in Ulundi, the KwaZulu capital. They should be restrained. Hasty use of force before all negotiating possibilities have been exhausted could play into Chief Buthelezi's hands and give him a cause around which to mobilise resistance for decades to come.

Smiling as long as he can

After his election fillip, Silvio Berlusconi now faces a difficult job forming a government, says **Robert Graham**

As befits a man who brought popular entertainment to Italian television, Silvio Berlusconi has a well-rehearsed smile.

Throughout a bitter, and at times venomous, election campaign, Mr Berlusconi wore this smile like a badge of self-confidence. But early yesterday morning as he stepped onto the podium of his Forza Italia headquarters to acknowledge the extraordinary victory of his Freedom Alliance, he was tense and grim-faced.

It was as though the 57-year-old media magnate sensed the real metamorphosis from businessman to politician. Forza Italia had won the largest number of votes and become the largest single party in parliament after less than four month's existence – a feat without parallel in the recent history of European democracy.

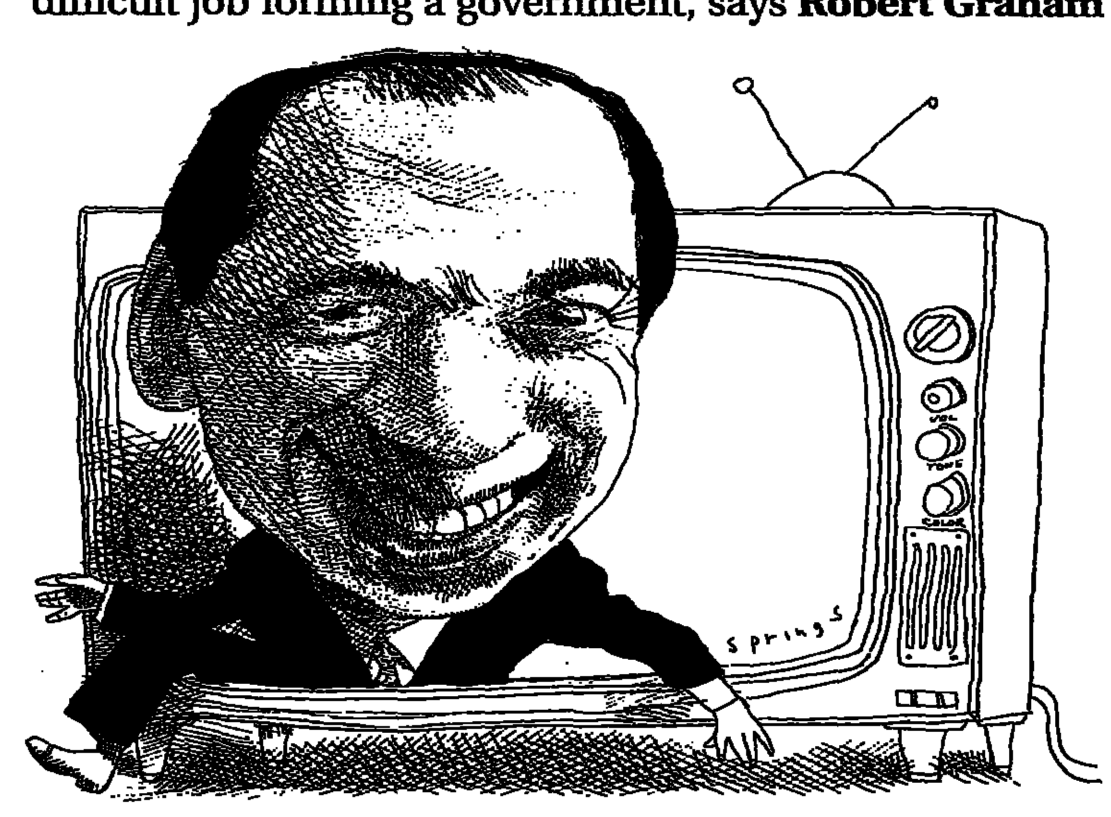
"It's probably quite a shock to realise that winning the elections is the easy part. Trying to put a together a government is going to be much tougher," observed one of his aides.

Having masterminded the three-party Freedom Alliance, which has won an absolute majority in Italy's lower parliamentary chamber, Mr Berlusconi will be the first to be asked by President Oscar Luigi Scalfaro to form a government. But in his ambition to become prime minister, Mr Berlusconi has gathered some odd bedfellows who may find it impossible to cohabit in government.

Thus there is a curious paradox in the election result. The composition of the winning coalition – Forza Italia, the populist Northern League of Mr Umberto Bossi and the neo-fascist MSI/National Alliance of Mr Gianfranco Fini – may not be that of the next government. The Freedom Alliance has no common programme of government, even if its constituents represent a clear swing towards the right of the political spectrum after the many years of centre and centre-left governments.

The biggest problem is the difference between the personalities and thinking of Mr Bossi and Mr Fini. Mr Bossi is a federalist and a free-marketeer who in the last decade has made a political career by founding a grassroots movement in northern Italy to supplant the abuse of power by the traditional ruling parties. Mr Fini, who describes himself as a "post-fascist", is heir to the centralised and corporatist traditions of the Mussolini state.

The election pact between the three parties was a marriage of convenience, and in no constituency did all three support each others' candidates. Mr Berlusconi forged a formal pact with Mr Bossi to pool resources in the north. Separately,



Mr Berlusconi organised a deal with Mr Fini to join forces in the centre and south of the country. The League and the MSI/National Alliance were linked through the person of Mr Berlusconi and by their dependence upon Fininvest's media empire to back their campaigns.

Repeatedly during the campaign Mr Bossi bad-mouthed Mr Fini and rejected the idea of governing with him. Mr Bossi said again yesterday: "There's a reactionary right around; and I would never be party to a government with a reactionary right."

Part of this is bluff to maximise his bargaining position, which has been eroded by the loss of votes to Forza Italia in the north. But joining the MSI in government would undermine his credibility among supporters, and threaten the League with absorption by Forza Italia. Alternatively, the League could split, with some deserting to the Berlusconi camp – there are already reports of overtures to several leading League members.

In any event, Mr Berlusconi will be hard pressed to find another grouping in parliament to form a coalition with the MSI. One way out of this impasse would be a Forza Italia/League government which excluded the MSI but had its explicit backing in parliament.

Another scenario would be for Mr Berlusconi and the League to seek allies with the centrist Italian Pact, headed by Mr Mario Segni. This would have the attraction of helping to provide an absolute majority in the Senate, or upper chamber. The lack of such a majority is a serious handicap, since the upper house can block legislation.

Mr Segni refused to make a pre-electoral alliance with Mr Berlusconi's Forza Italia – a factor which forced Mr Berlusconi into the arms of the League and the MSI. But Mr Segni himself paid dearly for spurning a deal with Mr Berlusconi. He ended up being squeezed between the Freedom Alliance on the right and the Progressive Alliance on the left.

Mr Segni may be more malleable after his disappointing performance in the polls. But if the centre joins Mr Berlusconi in government, Mr Bossi will be none too happy. He claims Mr Segni and his friends are no more than recycled members of the discredited regimes of the Christian Democrats and Socialists until 1992.

None of these possible outcomes augurs well for the formation of a stable government capable of lasting the full five years of the next legislature. Indeed, President Scalfaro may find Mr Berlusconi cannot form a viable government and turn to an "institutional" figure such as outgoing premier Mr Carlo Azeglio Ciampi, the former governor of the Bank of Italy.

The "institutional" solution however could be foisted on the country only *in extremis*. This is because the electorate has expressed through this week's elections a clear verdict in favour of political renewal and against the old political system.

In this respect, there is one common link between the parties of the Freedom Alliance: either they are untainted by previous government experience or they aspire to represent the majority of Italians who want the country to turn a new page. In contrast, the Progressives, dominated by the former communist Party of the Democratic Left (PDS), was weakened by being identified with the old political system.

This is the only political "glue" Mr Berlusconi's has available to him. He has to demonstrate that victory can bring his partners closer, not push them apart.

But even if an alliance can be forged, Mr Berlusconi has also to prove that he is not simply an invention of his own television network. Television launched him into an unbeatable lead. He and his advisers were smart enough to see the vacuum left by the traditional centre parties and sense that his audience, middle class Italy, was worried by a deep recession and wanted a simple reassuring message. His television exposure, coupled with the managerial talent of Fininvest, his debt-burdened media and stores group which set up the countrywide support network for Forza Italia, did the rest.

He now has to move from the soft sell of campaign promises to the harsh reality of operating with a new parliament and tackling the serious issues raised by Italy's substantial budget deficit and the mounting state debt. His pledge to cut taxes and relaunch the economy will be hard, if not impossible, to square with the need to introduce a mini-budget in the summer. A shortfall in revenues will have to be corrected if he is to hold the public deficit below 10 per cent of GDP. Equally his pledge to shake-up the public administration and liberalise the labour market risks a confrontation with the unions.

Until now, Italy has been governed, for better or worse, on a consensual basis with limited shifts in policy. If Mr Berlusconi forms a government by looking solely to the League and the MSI, this would mark a new departure, allowing the creation of a genuine opposition and a more confrontational style of politics. The obstacles in his path are immense, but Mr Berlusconi's style is to win and the election has shown that, despite his political inexperience, his capacity to come out on top should not be underestimated.

Faulty picture of multimedia world

PERSONAL VIEW

A remarkable conventional wisdom has emerged among business executives and consultants in the television, computer and telephony industries. It is that they are inexorably converging. While some blurring of boundaries is undoubtedly happening, the importance of this trend compared with some other changes under way has been exaggerated.

The computer and telecommunications industries have been eyeing each other longingly for many years without ever consummating their relationship.

Now entertainment has entered the picture, with media conglomerates like Time Warner of the US courting telephone companies. Cable operators are nibbling at BT's local telephone monopoly. BT is toying with movies-on-demand over telephone lines.

To add to the confusion, everyone is babbling about multimedia, a term even more elastic than back to basics.

By 2000, according to the pundits, the distinctions between content and carriage, medium and message, will be so blurred that television, telephone, publishing and computer companies will all be subsumed in one vast multimedia "infotainment" industry, worth more than $1,000bn. This is fanciful.

All of these industries are certainly going through tumultuous times. Broadcast television has ceased to be a protected oligopoly. In the US, the old networks' share of total viewing has already dropped by half. In the UK, the BBC and ITV companies will inevitably lose market share to new cable and satellite channels, as will traditional broadcasters in continental Europe.

Competition in telecoms has, to date, been introduced by regulatory fiat in the US and UK, and largely confined to long-distance traffic. However, new technologies like cellular telephony, satellite and cable, offering genuine alternatives to the old copper wires, will push prices down.

The computer hardware industry has already become ferociously competitive. The leadership of IBM and Apple has been seriously undermined, barriers to new entrants have dropped, and prices and margins have tumbled.

The economics and structure of the broadcasting, telecoms and computer industries are thus changing fundamentally, and generally to the disadvantage of carriers and broadcasters. In a much more competitive

Everyone is babbling about multimedia, a term more elastic even than back to basics

marketplace, created largely by technological change, the cost of delivery of programming and information relative to content will fall dramatically.

Some profess to have identified more opportunities than threats. The multimedia services of the future, according to the new conventional wisdom, will be on-line: movies-on-demand, home-shopping and banking, video games, distance learning, and a galaxy of interactive facilities.

There are two flaws in this vision. The first is that it exaggerates the value of on-line delivery – many interactive services are already being satisfactorily implemented on off-line media such as CD-Rom.

Second, it confuses the question of competition between different distribution systems with that of possible markets for new services. Technology can change the basis of production, but it cannot by itself create new markets. That depends primarily on the appeal of the accompanying programming or software to a particular set of customers.

The main advantage of the intelligent TV for the average couch potato is initially likely to be that it will make choosing from a bewildering array of programming much easier. It will not seriously reduce demand for passive viewing, nor will it endow network or cable operators with skills in programme making, interactive or otherwise.

That is why it is fanciful to think of this as a single new industry. The players in the complex new set of overlapping markets will have distinct roles, which will be determined more by their capabilities than by their assets. Success will come from applying those capabilities imaginatively, and from competing and collaborating intelligently, not from acquiring companies in unfamiliar businesses.

The beneficiaries of the new media order will be the publishers of programming and software, particularly those that can redefine their businesses in the way that Reuters and Microsoft, for example, have done. The biggest challenges will face those that have been accustomed to regulated markets and outright monopoly. Telephone and cable companies, when the regulators permit, will be challenging each other not so much for the new multimedia markets as for each other's core businesses.

Kieran Levis

The author is an independent management consultant specialising in new media

OBSERVER

Chums in the cabinet

■ Are the chancellor of the exchequer and the governor of the Bank of England, who hold their monthly monetary meeting today, on first name terms?

And if they are, should the governor – Eddie George – refer to the chancellor as Kenneth, or Ken? Clarke has only limited control over what newspapers call him and doesn't appear to have issued edicts on the matter.

But precedents have already been set; lengthy investigation indicates that in the past year the UK's non-tabloid newspapers have increasingly referred to the beer-drinking chancellor as "Ken". Admittedly, it's only one "Ken" per 28 "Kenneths"; but that's a remarkable shift on the previous year's tally of only one "Ken" for every 52 "Kenneths". John Major has taken to calling him "Ken", as has the Treasury's Stephen – not "Steve", note – Dorrell.

Where will all this vulgar chumminess end? Are we headed for the demotically inclined Mick Heseltine, Dougie Hurd and Sir Norm Fowler?

Major vs Marlow

■ The House of Commons experienced a frisson of history when Tony Marlow became the first Tory MP since Leo Amery – 54 years ago – to call in the Commons for the resignation of his own leader and prime minister.

Amery, a diminutive figure but much more of a political heavyweight than Marlow, told Neville Chamberlain to go after the failure of the Norwegian campaign in May 1940.

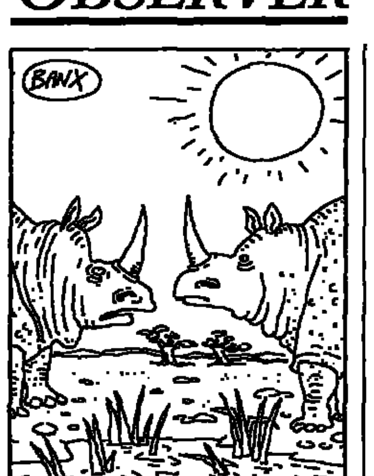
Amery quoted Cromwell's declaration to the long parliament: "You have sat here too long for any good you have been doing. Depart, I say, and let us have done with you. In the name of God, go." Chamberlain went two days later, and Churchill took over. We spy no Churchills in the wings in 1994.

Questionable probe

■ John Gummer, Britain's environment minister, thinks that two-thirds of those Londoners who filled in a questionnaire on their wishes for the capital's future did not vote for a strategic authority along the lines of the old Greater London Council.

That seems a trifle disingenuous – after all, they were never asked that question. True, says the environment department. "There was no direct question ... but people were asked for their suggestions," an official suggested.

In that case, it's surely *astonishing that one-third said* there *was* a need for a resurrected GLC or its equivalent. Ask no questions and I'll tell you no lies; mind you, truth's at a premium these days, it seems.



'I just heard Ionesco's become extinct'

Media games

■ An inventive idea for tarting up an office reception area comes from the CIA group. CIA has nothing to do with poison-tipped umbrellas; it's one of the UK's more flourishing media-buying outfits.

The company has fitted three computer game screens in the waiting room so that it might look "more like a media company and less like a hotel", says chairman Chris Ingram.

So instead of kicking their heels or thumbing through dog-eared magazines, visitors may now play "Dragon's Lair" or "Zombies Ate my Neighbour". But Chris – if you *really* wanted it to look more like a media office – where are the stiletto-encrusted backs, the spite-filled memos, the vindictive award ceremonies, the ...?

Hack seeks flak

■ Damned nuisance, these civil unrests. A colleague has just arrived in Johannesburg to cover the elections. Wisely, he ordered a standard flack jacket in advance. Now the supplier tells him he can't have it because ... "the disturbances are disrupting supplies".

Tunnel vision

■ What now for Sir Christopher Bland, 55, former chairman of LWT? He hasn't had to hang around waiting for job offers after Granada's takeover of his ITV company. He's understood to have been approached for the London Transport job. He also politely declined the chance to be a candidate to take over from Sir George Russell as chairman of the Independent Television Commission, when Russell retires at the end of this year.

It's believed that Bland, the former deputy chairman of the old IBA, is holding out for a run at the chairmanship of the BBC, a post that Sir George Russell, 58, is unlikely to turn down.

Standing in the way of the ambitions of both is the determined figure of Marmaduke Hussey who has absolutely no intention of giving up the chairmanship before the end of his term in November 1996. In the meantime, Russell has a proper job as chairman of 3i which he will be bringing to the stock market. Perhaps Bland should think again about the London Transport job.

Glad to be Vlad

■ He's a card, that Vladimir Zhirinovsky. "I am often asked if I have any hobbies," he told a Moscow hack the other day who was questioning the ultra-nationalist about his territorial ambitions. "Well, I don't fish or collect stamps. But I have a special affiliation to border posts." Apparently that kind of thing goes down a storm in Ivantheterribleograd.

Speak up

■ Let's hope the Union of Communication Workers gets its message through today when London post office workers, members of the UCW, stage a 24-hour strike; it put the wrong telephone number on yesterday's press release.

FINANCIAL TIMES
Wednesday March 30 1994

German rail group fined $12m over freight prices

By Gillian Tett in Brussels

The German state rail company, Deutsche Bahn, is to be fined Ecu11m ($12.3m) by the European Commission for charging cut-price rail tariffs to encourage freight traffic to use the German port of Hamburg.

The Commission said the fines, the largest so far levied on a rail group, had been imposed because Deutsche Bahn had abused its monopoly position, distorting the market by diverting traffic away from Belgian and Dutch ports.

Deutsche Bahn refused to indicate yesterday whether it would accept the ruling, insisting it had not yet received the details.

However, company officials indicated that the decision, taken by the Commission yesterday, was a surprise, and suggested that the company might appeal against it.

"We were not expecting a fine this large. We were not expecting a fine at all," said Mr Ulrich Kurth, Deutsche Bahn's representative in Brussels.

Commission officials said the size of the fine reflected the fact that the infringement had occurred over a "considerable period", with the full knowledge of the management.

The decision follows an 18-month investigation into the rail route, which concluded that the price charged by Deutsche Bahn for container freight from Rotterdam to Germany was often 44 per per cent higher than the price charged on trains from Hamburg to other German destinations.

In some cases, the Commission added, the price differential was as much as 77 per cent, even though the fiercer competition on these western routes should have made these prices lower.

As a result, it concluded, ports such as Rotterdam and Antwerp had been significantly disadvantaged compared to Hamburg, and freight had been encouraged to travel by road rather than rail.

"These practices have appreciably restricted competition, firstly between the railway companies and the combined-transport operators serving the various routes, and, secondly, between the German ports and other ports in the Community," the Commission said.

Deutsche Bahn insists that the reason the rail tariffs are higher to Belgium and Dutch ports than German ports is that freight travelling across the border must be unloaded and reloaded, whereas freight carried by rail to Hamburg or Bremen from German towns like Frankfurt could be carried directly in larger trains.

Thus even though some German towns were closer to Rotterdam or Antwerp than Hamburg, it was more economical to take the freight through German ports, it argues.

According to Commission officials, the large fine reflects the increasingly tough line the Commission is seeking to take against transport monopolies in the European Union, particularly in the area of combined-transport operators.

UK industralists denounce 'crazy' aid and trade rules

By James Blitz in London

Three leading British industrialists yesterday accused the government of undermining their companies' bids for contracts in developing countries by introducing "crazy" aid and trade rules in the aftermath of the Pergau dam affair.

Sir Robin Biggam, BICC chairman; Mr John Lippitt, a GEC director; and Mr Allan Gormly, chief executive of Trafalgar House said British aid and trade provision regulations made it extremely difficult to compete against European rivals.

They claim the government's use of the annual £100m ($146m) aid and trade provision budget had been restricted by new rules limiting the number of countries and contracts for which funds could be used. This budget channels UK development aid intended for the purchase of British goods.

"Our government's policy is totally wrong," Mr Lippitt, told the Commons foreign affairs committee. "It's crazy."

He claimed that restrictive aid and trade rules were the main reason GEC did not win two contracts to help build Chinese underground systems worth hundreds of millions of pounds.

The government came under fierce attack after £234m from the provision's budget was granted to the Malaysian government in 1991 towards construction of the Pergau dam.

After the Pergau deal, the Overseas Development Administration decided funds could only be given to countries with a per capita income under $700, a figure that would now exclude Malaysia. It compares with a peak of $2,465 suggested by the Organisation of Economic Co-operation and Development.

The ODA also set a £46m limit on the amount of government money that could go to any single project receiving aid and trade provision funds.

However, Sir Robin, whose company is the parent of Balfour Beatty which is contributing to the Pergau project, said his company could not take full advantage of the aid and trade provision scheme.

"We will be denied the use of ATP in any country above those limits of per capita income," he said. "We will simply not be able to compete." Mr Gormly said that such funding was essential for companies wanting to set up long-term business contacts in a region.

Mr Lippitt cited two examples of how the Bonn government had helped German companies to beat GEC in the pursuit of lucrative contracts in China.

He said GEC had bid for a contract to help build the Shanghai metro system, with the British government offering the Chinese 31 per cent of the costs of the project in aid and trade provision grant. However, the Bonn government offered 51 per cent grant in this category.

He said GEC was again beaten in bidding for the Guangzhou metro, with the UK offering 35 per cent of the costs of the grant in aid and trade provision and Germany 68 per cent.

Mr Lippitt claimed that the full aid and trade provision budget has been used in only one year of the last six.

Japan package yields to US demands

Continued from Page 1

The Japanese government wants to cut its current account surplus to 2.8 per cent of gross domestic product in the year to March 1995 from 3.1 per cent.

Details of the macroeconomic measures, which include the extension of income tax cuts and increases in public expenditure, will be announced in June before premier Morihiro Hosokawa meets President Bill Clinton in Naples at the Group of Seven summit.

In a related development, Honda and Mazda, two leading carmakers, announced voluntary import plans following similar measures by Toyota Motor, Nissan Motor and Mitsubishi Motor.

The transport ministry announced a plan to double the annual number of Japanese tourists to the US to 6.8m by 2000 to reduce its current account surplus.

In spite of enthusiasm among Japanese bureaucrats over the package, Tokyo's financial markets reflected disappointment among investors.

The yen jumped on fears that the US would not be satisfied, closing up Y0.94 at Y103.8 against the dollar. The Tokyo stock market index fell 1.2 per cent to 19,709.74.

Brussels ends row on banana imports

By Alison Maitland in London

The long-running dispute between the European Commission and Latin American countries over banana imports to the European Union has been settled.

The Commission said yesterday that the Union would increase its current 2m tonnes annual quota for Latin American bananas to 2.1m tonnes this year and 2.2m tonnes next year.

In return, Costa Rica has joined Colombia, Nicaragua and Venezuela in agreeing not to pursue its complaint to the General Agreement on Tariffs and Trade about the EU's preferential banana trade with former colonies in Africa, the Caribbean and the Pacific.

Guatemala is pressing its complaint, which has been upheld by a Gatt panel, but the Commission decided to go ahead with the deal anyway since Guatemala accounts for only 1.5 per cent of the market.

The deal still has to be approved by member states, some of which, led by Germany, want more open trading.

Germany, which had special permission under the Treaty of Rome to allow free access for Latin American bananas to its market, has taken a case to the European Court against the new EU banana regime introduced last July. It disputes member states' right to have approved the regime, which imposed EU-wide import tariffs on Latin American bananas, by a qualified majority.

Mr René Steichen, agriculture commissioner, warned agriculture ministers meeting in Brussels yesterday that failure to back the deal with the Latin Americans could endanger the Uruguay Round Gatt deal, due to be signed in Marrakesh next month.

The Commission yesterday submitted its amended quota offer to Gatt in Geneva. But member states are not expected to be asked to approve the deal and update the new regime until after Marrakesh, either at the foreign affairs council on April 18 or the agriculture council on April 25.

Under yesterday's deal, the commission agreed to reduce the tariff charged on Latin American bananas within the quota to Ecu75 ($82.5) a tonne from Ecu100. This was a concession to Costa Rica, one of the biggest suppliers to the EU.

It is granting specific quotas to the four countries based on their past share of the EU market: 23.4 per cent to Costa Rica, 21 per cent to Colombia, 3 per cent to Nicaragua and 2 per cent to Venezuela.

The governments of those countries will also be able to grant export licences, a move aimed at encouraging producer co-operatives to sell direct to the EU for a better price, rather than through the multinationals.

THE LEX COLUMN

Betting on Berlusconi

Italy's financial markets wanted a clear outcome to the general elections. They have not really got one. Forming a government promises to be a much harder task for the right-wing Freedom Alliance than winning the election, and the markets have some grounds for anxiety about how its policies will turn out. The stock market might relish the continuation of the privatisation programme: some juicy offerings are coming up in the insurance and energy sector. But it is hard to square the Alliance's commitment to lower taxes with continuing reduction of the budget deficit. If that approach did not work in Reagan's America, it is unlikely to in Berlusconi's Italy.

Arguably both equities and bonds are cheap. With inflation heading below 4 per cent this year, long-term yields of over 9 per cent provide a substantial real return. A prospective cash flow multiple of around six times is not demanding for equities, especially since Italy's strong export performance since the lira's exit from the ERM is starting to generate healthy growth in industrial earnings.

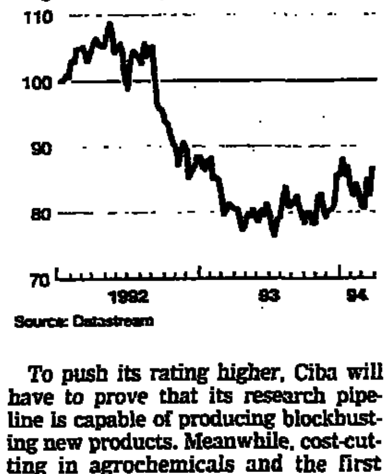
Yesterday's weakness in both markets suggests that the political fog will have to clear before these factors come to the fore. There are risks along the way. Not least is the possibility that worries about fiscal policy might cause the Bank of Italy to go slow on interest rate cuts. With the domestic economy still weak, that would be particularly worrying for equities.

Ciba

With around one-third of its shares now held outside Switzerland, Ciba's policy of openness has paid off. The 40 per cent rise in the shares last year – keeping pace with the soaring Swiss market – might also owe something to improved disclosure and the adoption of international accounting standards. But while Ciba's plan to do away with non-voting shares is another welcome step, glasnost can only propel the shares so far.

Further progress turns on the earnings outlook, which is far from clear. Looming US generic competition for two of Ciba's biggest drugs is a reason for caution about the immediate prospects – although the combined sales affected of $500m are modest in the context of the wider group. By reducing the headcount in pharmaceuticals by more than 1,000 last year, Ciba has also shown willingness to adapt. Such measures should limit the damage.

FT-SE Index: 3123.4 (-6.1)



Source: Datastream

To push its rating higher, Ciba will have to prove that its research pipeline is capable of producing blockbusting new products. Meanwhile, cost-cutting in agrochemicals and the first glimmers of industrial recovery in Europe look the best hopes for growth. That is more than many pure drugs companies have to offer.

Hammerson

There is a topsy-turvy feel to the property market at this stage in the recovery. Shares are trading at premiums to asset values; capital values are rising sharply while rents are still falling; and British Land and Hammerson are buying assets from institutional investors when most property companies would normally expect to sell to them.

Still, both Hammerson and PosTel have reason to be pleased with their deal. By swapping a bundle of properties for Hammerson shares, PosTel is increasing its stake in a geared recovery stock from 1.2 per cent to 12.3 per cent. PosTel will eventually be able liquidate those shares more easily than property. Hammerson is in effect buying short-term earnings, which is useful given the strain of maintaining its dividend. Thereafter, it should be able to lift the initial yield of 7.6 per cent through more active management and redevelopment.

But by marking Hammerson's shares down 2 per cent, the market focused more on the puzzling movements in its asset values rather than the attractions of the deal. It is hard to understand how Hammerson's US assets could have dropped 42 per cent over the year. The 5 per cent rise in Hammeron's UK retail assets also appears meagre given the significant shift in capital values elsewhere. Property investors must hope that reflects more on the ambitious valuations previously attached to Hammerson's portfolio rather than any cooling of the market overall.

Next

It has been a long and rocky road from the sprawl of Gardening Next and Next's neighbourly newsagents to the focused clothing retailer with net cash of £88m and profits of £74m. That transformation owes a great deal to the management team led by Lord Wolfson and Mr David Jones. Still, even they acknowledge their good fortune in hitting trouble early in recession, while there was still a market for surplus retail sites.

There is also a sparkle of magic about Next's survival. The brand has remained strong, in contrast to would-be competitors like Principles and Richards, where the red ink still flows freely. Next is in the happy position where it can avoid the blight of semi-permanent discounting, maintaining high margins and high sales volumes from limited space.

Its rapidly mounting cash pile suggests that the company is about to diversify. Yet if its cautious US experiment is any guide, the money will not burn a hole in management's pocket. Cash gives flexibility and Next can still grow in the UK by moving stores to larger premises. The 120 per cent increase in the dividend also shows that there is still plenty for shareholders to look forward to.

Norwich Union

Norwich Union's move to retrain and prune its sales force is an especially radical version of action being taken elsewhere. Prudential's sales are suffering as its direct sales force is overhauled, Legal & General is engaged in a similar process. That a blue-chip company like Norwich Union has been compelled to take such draconian steps hints at the true extent of the problem. Shedding 300 salesmen may have as much to do with economics as compliance, but the two issues are closely linked. It will prove far more difficult to sell life insurance contracts and personal pensions in great volume under a regulatory regime which demands commission disclosure and sound selling practice.

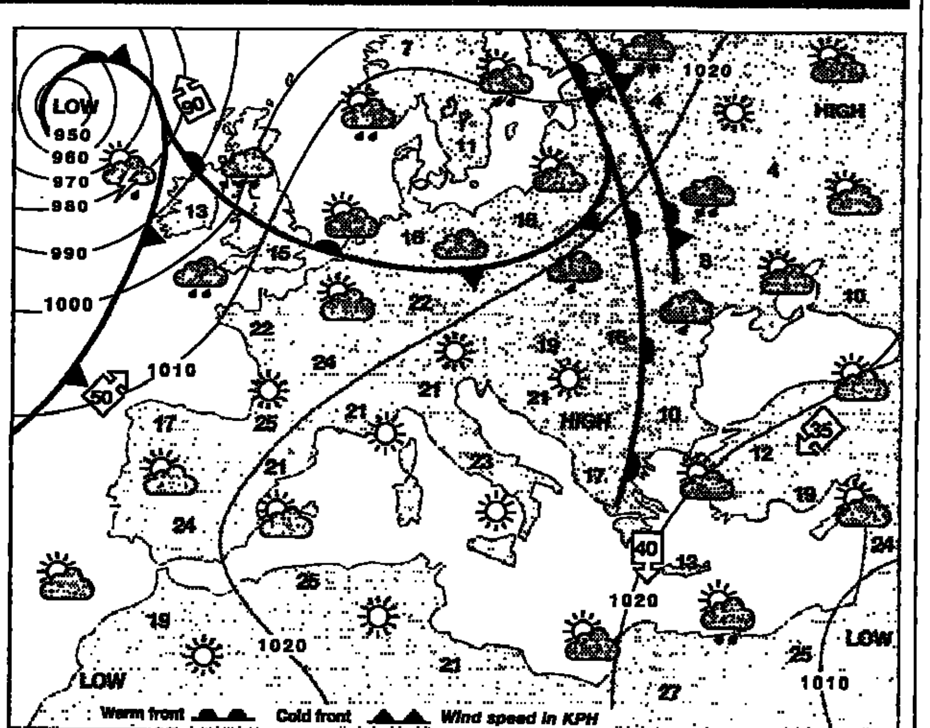
FT WEATHER GUIDE

Europe today

A vigorous low pressure system will produce strong winds over the western UK. Rain will spread into these areas and winds will increase to gale force during the afternoon. Over the sea, a storm force of 10 is expected. The coasts of northern Ireland and western Scotland will experience gusts up to 120kph. The Benelux, northern Germany and Poland will be mild, though with little sunshine. Western Russia and the northern Balkans will be cloudy with light rain. South-west Europe and the Alps will be fair with a lot of sun. North-west Spain will have afternoon showers and a few showers can also be expected in the eastern Mediterranean.

Five-day forecast

North-western Europe will remain showery and windy with the risk of another storm on Friday. Temperatures will be below the seasonal normal with hail and sleet on higher ground. The unsettled conditions will spread to central and south-eastern Europe. Spain and Portugal will remain rather sunny but showers will develop in the north-west on Thursday and Friday.



Situation at 12 GMT. Temperatures maximum for day. Forecasts by Meteo Consult of the Netherlands

TODAY'S TEMPERATURES

	Maximum Celsius	
Abu Dhabi	sun	30
Accra	fair	34
Algiers	sun	25
Amsterdam	fair	17
Athens	fair	15
B. Aires	fair	22
B.ham	shower	15
Bangkok	fair	35
Barcelona	fair	19
Beijing	sun	19
Belfast	rain	12
Belgrade	fair	21
Berlin	fair	18
Bermuda	fair	22
Bogota	fair	20
Bombay	sun	34
Brussels	fair	20
Budapest	fair	19
C.hagen	cloudy	11
Cairo	fair	27
Cape Town	sun	24
Caracas	fair	25
Cardiff	windy	13
Chicago	cloudy	2
Cologne	fair	21
D' Salaam	thund	31
Dakar	sun	25
Dallas	sun	15
Delhi	fair	35
Dubai	sun	30
Dublin	rain	13
Dubrovnik	sun	20
Edinburgh	cloudy	12
Faro	sun	20
Frankfurt	fair	21
Geneva	sun	21
Gibraltar	sun	21
Glasgow	windy	12
Hamburg	cloudy	16
Helsinki	fair	7
Hong Kong	cloudy	22
Honolulu	fair	26
Istanbul	fair	10
Jersey	fair	15
Karachi	sun	32
Kuwait	sun	31
L. Angeles	sun	20
Las Palmas	cloudy	21
Lima	fair	27
Lisbon	sun	20
London	fair	16
Lux.bourg	fair	20
Lyon	sun	25
Madeira	fair	19
Madrid	shower	22
Majorca	fair	22
Malta	sun	19
Manchester	shower	15
Manila	fair	32
Melbourne	fair	27
Mexico City	sun	26
Miami	fair	27
Milan	sun	21
Montreal	fair	1
Moscow	rain	5
Munich	fair	20
Nairobi	thund	26
Naples	sun	20
Nassau	fair	31
New York	fair	9
Nice	sun	18
Nicosia	shower	22
Oslo	fair	10
Paris	fair	23
Perth	fair	20
Prague	cloudy	20
Rangoon	fair	35
Reykjavik	shower	4
Rio	fair	26
Riyadh	sun	29
Rome	sun	19
S. Frsco	fair	19
Seoul	fair	15
Singapore	thund	31
Stockholm	sun	11
Strasbourg	sun	22
Sydney	shower	24
Tangier	cloudy	19
Tel Aviv	fair	28
Tokyo	fair	13
Toronto	fair	5
Tunis	sun	24
Vancouver	fair	13
Venice	sun	19
Vienna	fair	20
Warsaw	cloudy	17
Washington	fair	13
Wellington	cloudy	15
Winnipeg	fair	5
Zurich	sun	21

FINANCIAL TIMES
COMPANIES & MARKETS
Wednesday March 30 1994

IN BRIEF

BMW motor sales rise 2.7 per cent

BMW car and motor cycle sales increased 2.7 per cent in the first quarter of this year, and orders were clearly higher than 12 months ago, Mr Volker Doppelfeld, chairman, said yesterday. Page 22

Bertelsmann channel collapses
Bertelsmann, the German media group, suffered a serious setback yesterday when the Vox private television channel collapsed. Page 22

Pirelli plans refunding
Pirelli, the Italian tyres and cables group which has completed a two-year restructuring, yesterday announced plans for L1,000bn ($611m) of new funding aimed partly at a relaunch of its core products on international markets. Page 23

Behind the scenes of the Trizec bid
Peter Munk's faith in the North American property revival is examined after Horsham's C$600m (US$448m) investment in the Canadian group, Trizec. Page 23

SEC seeks shorter settlements
The Securities and Exchange Commission in New York has proposed a rule that will shorten the period in which investors in the US have to settle their securities transactions. Page 25

Pentos makes rescue cash call
Pentos, the UK specialist retailing group, plans to raise £45m ($67m) through a 4 for 3 rights issue at 25p after announcing a £70.6m pre-tax loss for 1993. Page 27

Taylor Woodrow back in the black
Taylor Woodrow, the UK housebuilding, property and construction group, bounced back into the black last year with pre-tax profits of £30.2m ($45m) following a record £94.5m loss in 1992. Page 27

Croda shares sink
Shares in Croda International fell 25p to 351p yesterday after the UK speciality chemicals group reported pre-tax profits up 29 per cent to £38.5m ($57.6m) before a £10.4m gain on the recent sale of its inks businesses. Page 29

Waterford Wedgwood turnaround
The sparkle has returned to Waterford Wedgwood, the luxury ceramics and crystal manufacturer, which after six years of losses has reported a I£10.1m ($14.6m) pre-tax profit. Page 29

Deep sea fishing dangers
Odd-looking fish that live in total darkness in the deep waters of the North Atlantic are causing a stir among fishermen and marine scientists. But scientists are warning that controls on deep sea fishing must be introduced before commercial exploitation threatens to wipe out a vulnerable resource. Page 36

Johannesburg SE shaken by battles
A weaker gold price added to woes on the Johannesburg Stock Exchange, still reeling from the impact of Monday's gun battles in the city centre which rocked market confidence. Back Page

Companies in this issue

Market Statistics

Chief price changes yesterday

FRANKFURT (DM)				Imm France	635	+	23
Rises				**Falls**			
Asko	1090	+	50	Cred Lyon(CI)	632	–	55
Beiersdorf	890	+	14	Elf Aquitaine	387	–	12.7
Commerzbank	358.8	+	5.6	Nord Est	157.7	–	6.4
Dresdner Bk	408	+	10	Roussel-Uclaf	622	–	28
Falls				**TOKYO (Yen)**			
Hoechst	332.5	–	6	**Rises**			
Zanders	221	–	10	Calpis Food	891	+	23
NEW YORK ($)				**Falls**			
Falls				Calsonic	592	–	19
DuPont	55⅝	–	1⅛	Kansai Paint	485	–	25
Goodyear	41½	–	1⅜	M'tokai Gas	430	–	31
Intel	67¾	–	1⅛	Mizuno Sport	891	–	49
Microsoft	83⅝	–	2¼	Suzuki Motor	1260	–	70
UAL	130½	–	2½				
Wellfleet	71⅛	–	2¼				
PARIS (FFr)							
Rises							
Gaumont(SocN)	919	+	37				

New York prices at 11.30am.

LONDON (Pence)				600 Group	52	+	8
Rises				Steel Burrill	144	+	15
Acorn Computer	76	+	6	Tekore	243	+	11
Automated Sec	117	+	8	Watts Blake	545	+	42
Bluebird Toys	750	+	20	**Falls**			
Bunzl	173	+	6	Alexon	47	–	13
European Motor	153	+	8	Croda Int	332	–	24
Johnston Group	157	+	8	Estates & Gen	33	–	4
Jourdan (T)	35	+	6	Eurocopy	61	–	3
Merrydown	148	+	9	Lloyd Thompson	283	–	11
Monarch Res	282	+	11	Lowe (Robt H)	2¼	–	1⅛
Proudfoot	71	+	3	NFC	228½	–	12½
Ransomes	21	+	3				
Ropner A	158	+	6				
Rotork	183	+	8				

Ciba seeks alliances in US market

By Daniel Green in London

Ciba, the largest of the big three Swiss drugs companies, said yesterday it would soon sign alliances in the US in response to the changing healthcare environment.

Mr Pierre Douaze, head of Ciba's pharmaceuticals division, said that deals could be done with other drugs companies or with organisations closer to the patient, such as drug distributors and health management organisations.

The move would be partly in response to the $6bn acquisition last summer by Merck, the biggest US drugs company, of Medco, a distributor. That deal was prompted by government and employers' efforts to cut healthcare spending by insisting on discounts and by buying in bulk.

Mr Douaze said Ciba was looking at several options and that a decision would be made soon. "We have to move before all the positions are taken."

He was speaking at the company's annual results presentation, which revealed 1993 post-tax profits up 11.2 per cent to SFr1.78bn ($1.3bn).

Sales rose to SFr22.65bn, a gain of 2 per cent in constant currency terms. Earnings per share rose to SFr63.8 from SFr56 and the dividend is lifted by SFr1 to SFr15 per share.

The company has three divisions: healthcare, industry and agriculture. Last year saw healthcare overtake industry to become the company's biggest single division with sales of SFr9.22bn, a rise of 5 per cent. Much of the gain was the result of a 20 per cent sales increase at Ciba Vision, thanks to the popularity of contact lenses.

Sales in the industry division, which includes textile dyes, chemicals and plastics, fell 1 per cent to SFr8.61bn. The decline was mostly accounted for by a 21 per cent fall in sales of composite materials to the aerospace industry, which was suffering from defence cuts.

Agriculture sales rose 1 per cent to SFr4.8bn, in spite of pressure on the business in Europe, where the Common Agricultural Policy has cut the acreage of land under cultivation.

Ciba said the European agricultural products market was unlikely to grow for the next two to three years, but that growth would come from Asia and South America.

Last year, Ciba switched to International Accounting Standards (IAS), leading to a revision of the 1992 group net profit to SFr1.6bn from an original figure of SFr1.52bn.

Lex, Page 20; Move from night to day, Page 22

Dutch airline's successful share issue to fund capital spending

KLM global offer raises $625m on strong demand

By Ronald van de Krol in Amsterdam

KLM Royal Dutch Airlines has raised Fl 1.19bn ($625m) through a global public offering of ordinary shares, which closed heavily oversubscribed yesterday.

The total amount, which also includes the sale of slightly more than Fl 225m in preference shares to the Dutch state, was nearly Fl 200m higher than KLM originally expected to raise.

The Dutch national carrier said the success of the share offering made KLM one of the world's most strongly capitalised airlines. It is forecasting a "modest" profit for the year to March 31, a sharp improvement from the Fl 562m net loss posted last year. The turnround is partly because it no longer consolidates the losses of Northwest Airlines, of the US, in which it has a 20 per cent stake.

KLM has also cut costs and restructured its operations. The proceeds of the share offering will strengthen the balance sheet, helping to finance capital spending.

KLM had planned to issue at least 18.5m shares at Fl 44 each, but the strong demand prompted the banking syndicate, led by ABN Amro and Merrill Lynch, to exercise its option to sell an additional 2.8m shares.

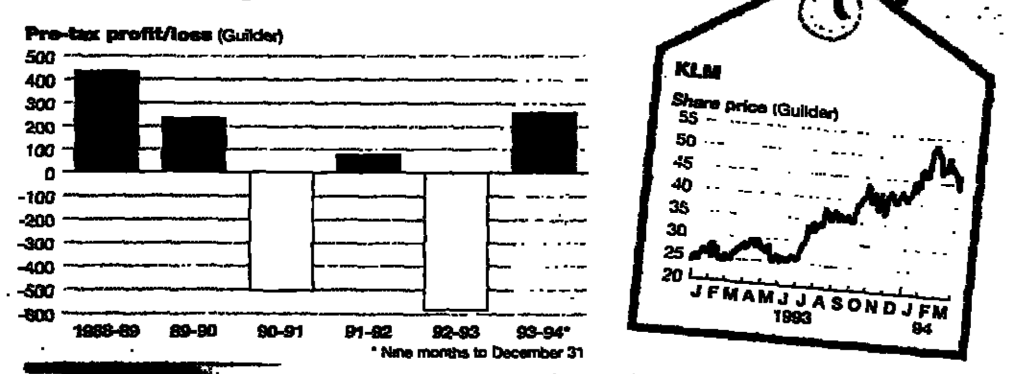
The Dutch state will maintain its 38.2 per cent voting stake in KLM by purchasing 970,455 new ordinary shares, investing Fl 235m in new convertible preference shares and topping up its payments on shares that were previously partly paid, at a cost of Fl 22m.

The airline said the flexibility of its biggest shareholder, which had said earlier that it wanted to spend no more than Fl 300m, enabled it to generate maximum proceeds. Of the state's total investment, only Fl 43m will take the form of new ordinary shares, increasing the availability to other investors.

The carrier's successful share issue took place against a difficult climate for airline stocks in the US in particular. Northwest recently cut the price of its initial public offering in New York. But Mr Pieter Bouw, KLM president, said the market conditions governing an IPO were different from those associated with a capital raising exercise by a company such as KLM, which has long been listed.

Mr Bouw said that KLM would not be able to rest on its laurels after its successful financing. The airline would need to continue with its three-pronged strategy of retaining customer loyalty, strengthening its market position and cutting costs.

KLM: recovery fuels demand for new shares



Selected operating statistics

Capacity	1993*
Available ton-kilometres (million)	6,871
Available seat-kilometres (million)	41,218
Kilometres flown (million)	182
Traffic	
Passenger load factor (%)	71.8
Number of passengers (000s)	7,665
Yield (in Dutch cents)	
Yield per revenue passenger ton-kilometre	152
Yield per revenue cargo/mail ton-kilometre	46
Staff	24,772

* Nine months to December 31

Deutsche Bank rises 24% and increases dividend

By Michael Lindemann in Frankfurt

Deutsche Bank, Germany's biggest commercial bank, yesterday said it would raise its dividend DM1.5 to DM16.50 following a 24 per cent rise in 1993 net profits to DM1.403bn ($816m).

Comprehensive annual results would be announced on Thursday, the bank said.

It added that yesterday's figures were released after the bank's supervisory board approved the 1993 results. Mr Hilmar Kopper, chief executive, is expected to give his views on current trading and on the economy at Thursday's presentation.

The results at Deutsche Bank are in line with expectations that German banks would report sharply improved figures, contrasting with worse results throughout German industry.

Net profit was up from DM1.134bn, bolstered by record results from the bank's Luxembourg operations where pre-tax profits jumped 44 per cent to DM636m from DM440m.

Deutsche Bank, the largest operator in Luxembourg, increased its number of customers by 28 per cent last year, helped by fears about the effect of a 30 per cent withholding tax introduced in Germany early last year.

A 194 per cent rise in pre-tax profits at Morgan Grenfell, the wholly owned UK-based investment bank, earned Deutsche Bank £100m ($150.3m).

The bank said its annual dividend payments would cost DM778m, leaving DM625m to credit to its reserves.

Bayerische Hypotheken und Wechsel-Bank, one of two big Bavarian banks, is the only one of the big five German commercial banks to have reported so far, announcing a 33 per cent rise in 1993 pre-tax profits to DM1.04bn.

Dresdner Bank and Commerzbank, just behind Deutsche on the commercial banks league, will report their 1993 results in early April.

● Frankfurter Hypothekenbank yesterday raised its dividend DM1.5 to DM16 after reporting net profits up 4 per cent to DM85.5m, followed by Berliner Handels und Frankfurter Bank which also increased its annual dividend DM1.5 to DM14.50.


Hilmar Kopper: chief executive

BAe discloses £2.9bn leasing exposure

By Robert Peston in London

British Aerospace disclosed yesterday that it has aircraft leasing obligations of £2.9bn ($4.2bn), compared with income that it expects to receive on sub-leases to airlines of £1.8bn.

Mr Richard Lapthorne, finance director, said that losses on these leases and restructuring costs in the aviation business had brought BAe near to collapse. "We got very close."

Only an undisclosed part of sub-lease income is contractually committed, though the group believes its estimate of what it will receive is prudent. At the end of last year, provisions for leasing losses stood at £653m.

BAe sold aircraft to banks and leased them back under agreements lasting 15-20 years. It then rented them on sub-leases of three-five years to airlines.

Losses are made by BAe if sub-leases are not renewed. Mr Lapthorne said that BAe used to book profits on the sales to banks and make only small provisions to cover the risk of losses. "We have over-reported profits in the past."

Mr Terry Smith, analyst at Collins Stewart, said the liabilities were extraordinary. "We thought BAe was selling the planes to airlines rather than renting them out on a short term basis".

In the past three years, BAe's commercial aircraft division has lost £1.79bn, including reorganisation costs and provisions against losses on the leases.

Counting the true cost, Page 30

Barry Riley

How US pension plans are going international

Forget for the moment about exciting and dangerous hedge funds, but look instead at those dull and staid US pension funds. Worth some $2,500bn, they put Mr George Soros and his ilk into perspective. And there are important structural changes taking place, with global implications.

A survey of the US pensions industry from the Connecticut consultants Greenwich Associates* spells out the massive shift into international assets now proceeding.

At the end of last year the average fund had 8 per cent in non-US assets (6.4 per cent in equities, 1.6 per cent in bonds) compared with only 4.4 per cent in 1991. Moreover the international exposure is expected by plan managers to hit 12 per cent by the end of 1996. Again, that would be very largely in stocks, at 9.6 per cent against 2.4 per cent for international bonds.

The sleepiest plan sponsors, even in the public sector, appear to be waking up, and there is a frantic scramble on to find global managers. Half of the funds surveyed by Greenwich had international portfolios at the end of last year, and half of the remainder intend to start buying international assets within 12 months.

Public sector funds – half of the industry in terms of assets – have tended to lag behind, and still have only 5.6 per cent overseas against 9 per cent for corporate funds. However, on present plans the public funds will have almost caught up in three years' time.

What does this mean for markets around the world? Already we have seen 100 per cent surges in several Asian markets in 1993 as US money, not all from pension funds, has sloshed around. The pension funds and similarly run endowments and foundations now own global equities worth some $170bn, and they plan to raise this to $300bn over three years. So although there may be further Hong Kong-style setbacks, as we have seen in 1994 so far, the money will keep flowing, perhaps at $30bn-plus annually.

The bond picture, incidentally, is not so dramatic. US tax-exempt funds hold $42bn of global bonds according to this survey, and plan to raise the aggregate to $75bn over three years. Governments around Europe alone will happily eat that rate of inflow for breakfast.

The sleepiest plan sponsors appear to be waking up, and there is a frantic scramble to find global managers

So much for the expansionary features of US pension funds. Overall, though, they are far from buoyant, with the corporate plans shrinking. This applies particularly to corporate defined benefit (in UK parlance, final salary-linked) plans which are estimated to have suffered a negative cash flow of $36bn in 1993. But the public sector plans and the corporate defined contribution (or money purchase) plans are still enjoying net inflows.

Defined contribution plans accounted for 30 per cent of all corporate plan assets in 1990, but the proportion has risen to 37 per cent today and could be 60 per cent in 10 years' time. They have a much lower international equity proportion – only 0.8 per cent against 9.7 per cent for defined benefit corporate plans. Remarkably, the defined contribution plans have on average 31 per cent of their assets in the sponsoring company's own stock, representing a worrying concentration of risk for beneficiaries – although on the other hand the current bid battle for Grumman has boosted the value of the company's 401(k) plan by some $250m.

It is worth asking, in view of the defined contribution growth, how permanent the US pension funds' voyage overseas may prove. The international shift appears to be motivated by a search for higher returns without undue increases in risks. Expected returns on US assets have declined, pushing funds further into equities (with exposure to domestic bonds down 2.3 percentage points to 32.7 per cent in two years). Both small capitalisation domestic stocks and foreign stocks have benefited from this search for extra return. Emerging markets, heavily marketed, have offered tempting returns.

Last year the US was the worst-performing main stock market in dollar terms, but it may not look relatively nearly so bad in 1994. The pension plans' rush abroad is probably unstoppable in the medium term, but a bad period for international returns could yet cause plan sponsors to put their more ambitious plans on ice for a while.

*Greenwich Associates, Tel. (203) 629 1200

BMW cautious on profits despite 2.7% sales advance

By Christopher Parkes in Munich

BMW car and motorcycle sales increased 2.7 per cent in the first quarter of this year, and orders are clearly higher than 12 months ago, Mr Volker Doppelfeld, finance director, said yesterday.

However, the company only hoped these improvements would translate into better profits, he added. The 1993 annual report, published yesterday, predicted a satisfactory result.

Rover, the new UK subsidiary, was likely to produce improved pre-tax earnings, although taxes and BMW's conservative accounting methods would turn this into a loss if the group decided to consolidate the results this year, Mr Doppelfeld added.

According to Mr Bernd Pischetsrieder, chairman, Rover's prospects were even more interesting than believed at the time of the recent £800m ($1.2bn) takeover. He refused to elaborate, but maintained that the fact that Rover would remain an independent business spoke for itself.

Mr Pischetsrieder appeared optimistic on the outcome of negotiations to maintain technological links between Rover and Honda. Expectations were high on both sides, he said.

Confirming that technical co-operation deals on Rover's mid-range models were to be continued into the next model generation, he said he wanted to forge a long-term relationship with Honda.

Group turnover rose to DM7.5bn in the first quarter, although car deliveries to customers were unchanged at 137,000 units. Production fell 7 per cent mainly because of disruption caused by tooling up for two new models.

The company, which plans a rights issue to raise about DM800m, is expected to continue to outperform its domestic rivals.

Sales in the US rose 19 per cent last year to 78,000. This made it the leading European supplier in the US for the first time, "although this was never our aim", according to Mr Doppelfeld.

Bertelsmann's Vox TV unit fails

By Michael Lindemann in Frankfurt

Bertelsmann, one of the world's largest media groups, suffered a serious setback yesterday when the Vox private television channel collapsed.

"Our intensive efforts to save the channel have not so far produced an acceptable result," the company said.

The group said on Monday that it was in last-minute negotiations with Walt Disney in the hope that the US group would take a 49 per cent stake. Bertelsmann held a 24.9 per cent stake as the only remaining shareholder needed to find investors. A purchase of 49 per cent by the US group would have left 26.1 per cent held on trust.

Walt Disney refused to confirm that it had been in talks with Bertelsmann and would not comment on why the talks had failed.

Liquidation proceedings will start on April 1, but Vox said the channel would continue in roughly the same format. An estimated 300 employees will be made redundant under a plan agreed with the workers' council.

Bertelsmann suggested that new shareholders might be found once liquidation proceedings and the cost of buying a stake had dropped sharply.

The channel's collapse is blamed on strategic miscalculations at Bertelsmann, which masterminded the channel's launch in January 1993 and is otherwise regarded as one of the world's most successful media groups.

A series of format changes and unexpectedly high start-up costs scared off several German shareholders, including Süddeutsche Verlag, which publishes the Süddeutsche Zeitung.

Case closes French plant in shake-up

By John Ridding in Paris

J.I. Case, the US manufacturer of farm machinery and construction equipment, yesterday announced plans to restructure its French and UK operations to improve efficiency and respond to depressed market conditions.

The measures will involve the closure of a plant in central France and job losses at other French and UK sites.

Case, a unit of US-based Tenneco, said that faced with the current European environment "it cannot envisage a substantial natural improvement in activity". It outlined a series of restructuring measures to cut costs, improve productivity and ensure "long-term economic viability".

The proposed measures, which the company said were the next steps in a three-year restructuring programme, affect the group's French and UK operations.

The Vierzon plant in central France, which employs 270, will be closed and assembly of loader backhoes will be transferred to the company's plant in Crepy en Valois, north of Paris. Some jobs will be transferred from Vierzon to Crepy.

The company's Doncaster plant in northern England, which will become Case's single European tractor assembly plant following the closure of a plant in Germany, announced last year, will cease its component manufacture and machining activities.

Jobs will be lost at the Doncaster plant, which currently employs about 1,400, although the number of positions affected is still unclear.

Foundry activities at Doncaster and St Dizier in eastern France will be closed if alternative solutions, such as joint ventures, partnerships or sales cannot be arranged. These activities employ 160 and 250 respectively. The manufacture of backhoe transmissions at St Dizier will be replaced by outsourcing of these products.

Mr Steve Lamb, managing director of Case Europe, said that the steps were necessary to assure the company's future.

Swiss group moves from night to day

Ciba has joined the international accounting club. Andrew Jack reports

Switzerland is fast coming in from the cold in corporate reporting, with multinationals increasingly abandoning isolation in favour of compliance with international accounting standards.

The latest to join the trend was Ciba, the pharmaceuticals and chemicals group, which yesterday published its 1993 accounts, for the first time using the guidelines of the London-based International Accounting Standards Committee (Iasc).

Ciba's followers had a taste of what was to come last summer, when it re-stated its 1992 results according to international accounting standards. The effect was to increase post-tax profits by 18 per cent, while raising inventories and cash and marketable securities.

This year, the company reports in full under the new system for the first time. One short-term frustration for shareholders is that the company has published no comparison with previous years, since 1993 is the first full set of figures using the new standards.

The contrast is stark. "It's like night and day," says Mr Rolf Meyer, chief financial officer. "For the international user the old system was very unusual and difficult to understand. It was more of a statistical summary than an integrated accounting system."

A report late last year by the Swiss Association of Financial Analysts and Asset Managers suggested that the majority of leading industrial and commercial companies have now brought their accounting into line with international standards.

It highlighted more than 15, including Oerlikon-Bührle, Sandoz, Roche and Nestlé. "Shareholder information in the leading group is often better than that of comparable countries in Europe," it concluded.

This pattern has made Swiss companies among those with highest apparent compliance with international standards. However, Mr David Cairns, Iasc's secretary general, stresses that many companies elsewhere use standards which are compatible with international standards, including those in the UK, the US and Canada.

"Switzerland doesn't have a history of very detailed accounting rules," says Mr Cairns. "Fifteen years ago Swiss companies had some of the worst in the world. International companies had to lift themselves substantially above existing levels."

He says that in the last few years the Swiss have introduced new legislation and are developing more rigorous accounting standards. However, these changes were not enough to persuade Ciba and its competitors to stick simply to national standards.

Mr Meyer says the primary reason for moving towards international standards was to reflect a desire to broaden the company's shareholder base in line with its international operations. Foreign equity is now about one-third of the total.

He adds that it "enhances the potential for a listing" in other equity markets, although he says there are no current plans to seek quotes outside Switzerland.

It was not an easy process, although the transition has all been achieved since mid-1990. "I thought this is somewhat risky and if something slips I will have to look for another job," says Mr Meyer.

The company decided not simply to focus on external financial reporting by international standards, but also to use the same system internally. Its accounting systems have had to be overhauled as a result, to report in a way that corresponds closely to the figures shown in the accounts.

It set up a small international team with considerable power to introduce accounting changes.

"We didn't have any technology freaks," he says. "We wanted to use proven tools that provided results quickly, reliably and in a user-friendly way."

There were teething problems, including a figure thrown up by the system on the insurance values of fixed assets that was wrong by SFr1bn ($690m). However, a series of trial runs appears to have smoothed out the difficulties.

Mr Meyer says there have been large savings as a result of the change, including tighter cash management, more efficient capital investment, a different approach to acquisitions, and more rigid asset management which he estimates has reduced the value of inventories by 6 per cent.

He says one principal advantage has been to allow the company to benchmark its performance for the first time against its competitors. "It has helped our internal management become tighter and more transparent."

One of the largest differences has been to move from the arguably more informative current cost accounting approach that Ciba had used over 25 years – which regularly updates asset values – to historical cost accounting under international standards.

"From a management accounting view we are still convinced we had a very good system, but we were calling out from the desert," he says. "We were by ourselves and eventually we had to listen to our customers."

Hammerson buys PosTel portfolio

By Vanessa Houlder, Property Correspondent

Hammerson, the UK's fifth largest property company, yesterday unveiled the acquisition of a £143.3m ($214.5m) property portfolio from PosTel, in a deal that leaves the pension fund with a 12.3 per cent stake in Hammerson.

The acquisition is Hammerson's first big deal since its £199m rights issue and change of management last year. Mr Ron Spinney, chief executive, said the purchase was in line with the company's new strategy of rebalancing its portfolio and adopting a more active investment policy.

The portfolio, which includes the Queensmere Shopping Centre in Slough and the HMV store in Oxford Street, is expected to help Hammerson improve values by redevelopment and more active management. PosTel's sale of the portfolio is part of a long-term plan to liquidate the properties held in one of its funds.

Payment for the six properties, which generate rental income of £10.9m a year, takes the form of £25.3m cash and 31.9m new shares at 370p each.

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GKN £497m bid for Westland is rejected

By Tim Burt in London

GKN's £497m ($747m) hostile takeover bid for Westland, the helicopter manufacturer, moved towards a climax yesterday after a meeting between the chairmen of the two companies broke up without agreement.

This leaves the engineering group with two days to revise its 290p-a-share offer.

Mr Alan Jones, Westland chairman, had a "friendly but frank" 35-minute discussion with Sir David Lees – his GKN counterpart – but is understood to have firmly rejected the bid. After the meeting, the executives issued a joint statement: "In all matters relating to Westland, there is an unbridgeable gap between us."

Throughout the bid, Mr Jones has criticised GKN, which controls 45 per cent of Westland, for undervaluing its order and profit prospects.

McDonnell Douglas Helicopters, the US manufacturer, yesterday announced it had reached agreement with EH Industries – a partnership between Westland and Agusta of Italy – to market the partners' EH101 helicopter in North America.

Rapid recovery continues at UK retailer

By Neil Buckley in London

Next, the UK fashion chain, demonstrated its continuing rapid recovery yesterday with the announcement of a near doubling of full-year pre-tax profits, to £73.5m ($110.5m) from £38.9m.

The group was one of the most successful retailers of the 1980s but ran into difficulties when it over-expanded. Profits have recovered from £12.3m to £73.5m in two years.

Lex, Page 20

Profit declines at Bobst for second year in a row

By Ian Rodger in Zurich

Bobst, the Swiss packaging machinery group, suffered a second successive profit decline last year, with consolidated net income down 31 per cent to SFr44.9m ($31.6m).

However, the directors have decided to maintain the dividends, and are forecasting an improvement in both turnover and profit in the current year.

The group, which specialises in machines for forming and decorating cardboard, has been hit by reduced business in Europe and Japan. But order inflow has improved since last autumn. Consolidated sales fell 7.9 per cent last year to SFr932.7m and cash flow sank 21.5 per cent to SFr90.8m.

● Lindt und Sprüngli, the Swiss fine chocolate group, said its 1993 net profit rose 4.2 per cent to SFr39.8m on sales up 11.2 per cent to SFr1.2bn. Dividends are to be raised 2 per cent.

Mr Rudolph Sprüngli, chairman, said he was confident of further growth in the current year.

Pirelli plans to raise L1,000bn for expansion

By John Simkins in Milan

Pirelli, the Italian tyres and cables group which has completed a two-year restructuring, yesterday announced plans for L1,000bn ($611m) of new funding aimed partly at a relaunch of its core products on international markets.

The holding company is to raise the money through a debenture loan for 1994 to 1998, convertible into ordinary shares, at a price between L2,000 and L3,000. It will use the proceeds to expand activities and finance new products.

The funding will also allow it to participate in the recapitalisation of its Amsterdam-based offshoot, the quoted Pirelli Tyre Holding (PTH).

PTH plans a share capital increase through the issue of slightly over 31m new shares valued at Fl 10 each. Shareholders will be offered one new share for every three owned, at a discount to be determined at next month's general meeting. The issue is expected to raise Fl 500m, with a further Fl 150m coming from warrants reserved for minority shareholders.

The holding company's board will also recommend, for the sake of operating flexibility, that authorisation should be given for further capital increases up to L500bn as necessary.

Mr Marco Tronchetti Provera, managing director, said the group expected to return to net profit in 1994.

The 1993 net loss, which springs from restructuring costs and will be revealed next month, will be below the L154bn deficit posted in 1992.

Consolidated sales rose 12 per cent in 1993 to L9,210bn while the group's net profits before extraordinary items is estimated at tens of billions of lire, compared with a L93bn loss in 1992. Net debt diminished by about 20 per cent to L2,128bn.

Munk puts his faith in a property revival at Trizec

Bernard Simon reports on the background to Horsham's C$600m investment in the Canadian group

Mr Peter Munk makes a habit of doing business with panache. The Hungarian-born Canadian runs his companies from a stylish townhouse in a Toronto neighbourhood better known for expensive shops and restaurants than corporate head offices.

Each winter, however, he manages to mix business with pleasure by setting up an office in the Swiss ski resort of Klosters.

Munk's eye for the unorthodox was again in evidence this week with a conditional offer by Horsham, his main holding company, to invest C$600m (US$447.7m) in Trizec, one of North America's biggest office and shopping-mall developers. Horsham would end up with a 43 per cent controlling stake.

Trizec is by no means an obvious takeover candidate. Crippled by the long slump in North American property, the Calgary-based company is conducting tough negotiations to restructure part of its C$4.8bn debt.

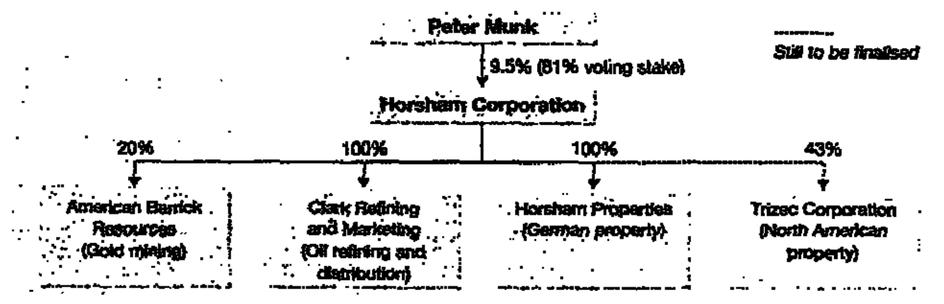
Even as the agreement with Horsham was announced on Monday, a group of unpaid senior debenture holders reaffirmed their determination to seize their security. A court hearing is scheduled for tomorrow.

The threat posed by the disgruntled creditors to Trizec's survival appears to have motivated the developer's approach to Horsham last January.

According to Ms Leanne Baker, analyst at Salomon Brothers in New York, Horsham's investment is "not simply a positive call on a sector, but represents an opportunistic acquisition made possible by a singularly distressed company".

A similar description might apply to several of Mr Munk's deals over the past two decades. A few have soured, but enough have succeeded to make Peter Munk and his companies a force to be reckoned with.

It was only a decade ago that prominent Canadian securities dealers shied away from helping Mr Munk raise money for an ailing gold and energy producer he had recently acquired. That company, American Barrick Resources, now has a market capitalisation of C$10.2bn, making it the third most valuable company listed on the Toronto stock exchange.



Horsham has a 20 per cent stake in Barrick, whose fast-rising earnings from the Goldstrike mine in Nevada have made it the jewel in Mr Munk's crown. Barrick contributed US$41.5m to Horsham last year, which was more than the parent company's total earnings of $40.1m.

Horsham's other significant investment is a 100 per cent interest in Clark Refining and Marketing, an oil refiner and distributor based in St Louis, Missouri.

Clark has had an up-and-down history since Horsham bought control in 1988. It posted a small profit last year, with slim refining margins offset by a management shake-up and tight cost controls.

Clark is on the verge of an expansion. It is in talks to buy a 177,000 barrels per day refinery in Port Arthur, Texas, from Chevron. The refinery, expected to cost US$150m-$200m, will more than double Clark's capacity and substantially extend its operating area.

Mr Todd Bergman, analyst at Goldman Sachs, said recently the refinery "will increase Clark's refining exposure at a very low incremental cost." He predicts that Horsham's earnings will jump to 70 cents a share this year from 42 cents in 1993, due partly to higher refining margins and productivity improvements at Clark.

An attempt by Horsham to spin off part of its stake in Clark to the public was aborted last year when market conditions suddenly deteriorated. But a public offering is still in the wings, and could be imminent.

The planned investment in Trizec would not be Mr Munk's first foray into property. During the 1970s, he invested in a chain of South Pacific hotels, and came close to building a resort in the shadow of the Pyramids in Egypt.

Horsham recently bought 600 acres of farmland on the outskirts of Berlin which it is developing into a business park. The project is now self-financing, but the downturn in the German economy has been a disappointment.

Like many of his other deals, the proposed stake in Trizec is a long-term bet. Property markets in several North American cities have shown signs of life recently. If Trizec can stave off its creditors, it would be an obvious beneficiary of any sustained improvement.

Should the investment in Trizec prove to be a dud, Mr Munk will at least have the excuse that some high-powered names backed his instincts.

Horsham has an unusually star-studded board of directors, including Mr Karl-Otto Pöhl, former president of the German Bundesbank, and Mr Brian Mulroney, the former Canadian prime minister.

They appear to share Mr Munk's confidence that a full recovery in North American real estate, and in Trizec's fortunes, is just a matter of time.

Northrop criticises Grumman timetable

By Martin Dickson in New York

A timetable proposed by Grumman for a rapid auction of the company has been sharply criticised by Northrop, one of two companies which have launched offers for the defence manufacturer.

Grumman, which became a bid target earlier this month, called on Monday for Northrop and rival bidder Martin Marietta to submit their best bids for the company by 5pm on Thursday – a remarkably short takeover timetable by normal US standards. Grumman said this would prevent disruption to its business.

However, Northrop, which has the higher of the two bids on the table, complained that Grumman was in essence proposing that Northrop bid against itself.

Grumman agreed on March 7 to a friendly $1.9bn, or $55 a share, bid from Martin Marietta. However, Northrop, with which Grumman had held secret takeover talks, which ended in January, then launched a hostile $60-a-share bid, worth $2.04bn.

In a letter to Grumman, Mr Kent Kresa, Northrop chairman, said the proposed timetable continued an "unlevel playing field".

Northrop, he said, still faced a $50m "lock-up" fee, which Grumman has agreed to pay Martin Marietta if another bidder wins control of Grumman.

Further, since Northrop had the higher bid on the table, it was "being asked to bid against a purely hypothetical price increase from Martin Marietta without any notice or knowledge of whether such an increase is in fact submitted."

Mr Kresa said while Grumman's board spoke of wanting "free and open competitive bidding," the proposed process was not open: "It is not in the best interests of Grumman's stockholders to prematurely cut off potential bidding and potentially deprive stockholders of the opportunity to receive the maximum value for their shares."

Chairman of French bank sees sale by end of 1995

By Alice Rawsthorn in Paris

Crédit Lyonnais, the troubled French banking group, could be ready for privatisation by the end of next year, according to Mr Jean Peyrelevade, chairman.

"We should be able to think about privatisation towards the end of 1995, but first the bank needs to be put on a profitable footing," said Mr Peyrelevade, who last week announced details of an emergency FFr44.9bn ($7.8bn) financial rescue package for Crédit Lyonnais and also disclosed that the group last year made a FFr6.9bn net loss.

The French government's rationale for backing the rescue, which includes a FFr4.9bn cash injection from the state and other shareholders together with the transfer of FFr40bn of property loans to a new company, was to prepare Crédit Lyonnais for privatisation. But the scale of the restructuring has sparked a political row.

A number of politicians have already called for an official inquiry into the management of Crédit Lyonnais, including Mr François d'Aube, a conservative who wrote a controversial book on the bank entitled Argent Sale, or Dirty Money.

The French government last night declined to comment on speculation that Mr Jean-Yves Haberer, who chaired Crédit Lyonnais from 1988 to last November, was to be dismissed from his new post as chairman of Crédit National, a smaller state-controlled banking group.

Mr Haberer, who orchestrated an aggressive policy of international expansion and lending at Crédit Lyonnais, has been widely blamed for the bank's problems.

He issued a statement yesterday calling for an inquiry into the management of Crédit Lyonnais and claimed that he had been subjected to "a real media lynching" over his role.

Dutch financial group advances to Fl 2.03bn

By Ronald van de Krol in Amsterdam

Strong performances in banking and life insurance helped Internationale Nederlanden Group, the Dutch financial services group, to lift 1993 net profit by 10.9 per cent to Fl 2.03bn ($1.07bn)

Pre-tax profits showed an even sharper rise of 18 per cent to Fl 2.82bn. But a 39 per cent increase in ING's tax bill – reflecting increased earnings in Japan and the US and the absence of the previous year's tax windfalls in Canada and Australia – accounted for the slower rate of increase in net profit.

ING is to raise its dividend to Fl 3.50 from Fl 3.19 in 1992.

ING also announced it was launching a Fl 1bn bond issue. Mr Aad Jacobs, chairman, said Fl 700m of the proceeds would be used to strengthen the shareholders' equity of its banking subsidiary, ING Bank, and fuel its growth. The bank has expanded rapidly in eastern Europe and Asia Pacific.

The rest of the proceeds would be held in reserve.

Banking results showed a strong improvement virtually across the board last year, with pre-tax profits up 27.3 per cent at Fl 1.34bn. ING cited the favourable development of interest rates and its continued successes in emerging markets.

In insurance, ING profited from the deconsolidation its Orion non-life subsidiary in the UK, which had been a drag on the sector. Overall, pre-tax results in insurance rose by 11 per cent to Fl 1.53bn.

Coors buys Spanish brewery

By Tom Burns in Madrid

Coors Brewing Company, the US beer producer, is acquiring a brewery in Zaragoza from El Aguila, Spain's second-ranked brewer, to serve as its European export base.

The purchase, part of an initial Pta7bn ($51m) investment in Spain, gives Memphis-based Coors its first manufacturing base in Europe.

Under the agreement, Coors will continue to produce El Aguila brands at the Zaragoza plant over a four-year period and will gradually introduce its own product, Coors Extra Gold, for the Spanish and the European markets.

The sale of the plant relieves El Aguila, 51 per cent owned by Holland's Heineken group, of a considerable burden and represents the virtual completion of a lengthy rationalisation process.

El Aguila, which is forecast to have lost Pta5.9bn last year, against Pta6,2bn in 1992, is to concentrate its brewing activities in Madrid and in Valencia.

Coors' investment is the first significant move in the Spanish brewing sector since Guinness, the UK group, bought La Cruz del Campo, the leading Spanish beer company in 1991.

Turnround at Moscow Narodny

By Alison Smith

Moscow Narodny, the London-based trade and project finance bank, made a pre-tax profit of £43.6m ($63.65m) in 1993 after two years of significant pre-tax losses, culminating in losses of £316.1m in 1992.

The bank said the turnround came from two sources. Its operating income rose 11 per cent to £30.9m from £27.9m, and it was also able to release some £26m in provisions, as a result of selling debt – mainly sovereign debt – at above net book value. It had not, however, altered its provisioning for former Soviet Union debt.

The bank still has an accumulated deficit of £347.3m and is not proposing to pay a dividend. It last paid a dividend in 1988.

Moscow Narodny is owned by Russian institutions, principally the Central Bank of Russia, but is licensed and supervised by the Bank of England. Its annual meeting is today.

Mr Derek Farmer, general manager, said the results showed a return to stability, and that the bank was well-placed to move forward after the consolidation of the last couple of years.

Last year also saw the first significant growth in total assets – to £952.4m from £884.9m – after a period in which MNB had had to be prudent and reduce its exposure to the former Soviet Union.

Mr Farmer said the bank saw opportunities to take advantage of the market in Asia and the Pacific Rim from its branch in Singapore.

Mr A. Semikoz, the bank's chairman, said in the annual report the bank would make it a priority in 1994 to use its skills and experience to assist banks throughout the Russian federation to widen their international banking ability.

Moscow Narodny has correspondent relationships with 173 banks in the former Soviet Union, most of them in Russia.

Sales surge at Indian carmaker over year

By Stefan Wagstyl in New Delhi

Maruti Udyog, India's biggest carmaker and a flagship industrial enterprise, yesterday reported a 31.5 per cent *increase in sales to Rs22.22bn* ($708m) for the past 12 months, due to a sharp recovery in demand after two years of recession.

Maruti, a joint venture between the Indian government and Suzuki Motor of Japan, estimated pre-tax prof*its to have trebled to* Rs1.36bn as the sales increase brought down unit production costs. The company has produced 158,000 vehicles in the year, mainly 800cc compacts based on a Suzuki model of the early 1980s.

Maruti's performance highlights a steady recovery in Indian industry since last summer, particularly among makers of consumer goods.

Carmakers have benefited from cuts in excise taxes and other government measures to boost industrial growth taken in the 1993-94 and 1994-95 budgets.

Mr R.C. Bhargava, Maruti's chairman, said he was convinced that the company wasset for sustained growth in sales "in view of what we have seen in the last two budgets".

Maruti expects to produce at *least 181,000 cars in the next 12* months, including 13,900 vehicles of a new model called Zen, a modern compact, which will also be exported to western Europe.

The company says it will complete by September a Rs7bn expansion of its assembly plant near Delhi to increase capacity by 70,000 cars a year.

Maruti exported 17,200 cars in the year just ending, mainly to western Europe, up from 14,600, and plans to export 23,000 in 1994-95, including Zen vehicles.

New World Development ahead 37% at HK$1.9bn

By Simon Holberton in Hong Kong

New World Development, the Hong Kong property, hotels and infrastructure group, yesterday reported a 37 per cent rise in after-tax earnings to HK$1.9bn (US$245m) from HK$1.39bn in the six months to *the end of December.*

Profits were struck on a 41 per cent growth in turnover to HK$8.37bn from HK$5.94bn, with most of the earnings growth coming from a strong performance by the hotels division. Earnings from rents and property sales were flat, while *those for construction and pil*ing were slightly down on the same period a year ago.

Earnings per share advanced 34 per cent to HK$1.21. Directors declared an interim dividend of 28 cents, 12 per cent up on a year ago.

The company added its voice to the growing number of Hong Kong property developers seeking to allay fears about the colony's property market. It said that it remained confident that the property market in Hong Kong would continue to experience "healthy growth" over the coming years.

New World directors sought *to underline the importance of* its activities in China. They said that the company would maintain between 20 and 25 per cent of its net assets in mainland investments, with infrastructure and property development constituting the main focus.

Pre-tax profits from hotel interests rose 51 per cent to HK$401.2m. The company said that New World Hotels would open a hotel in Manila this summer and one in Saigon in later. In the past six months it has signed management contracts for four hotels in China.

The group's other hotel operation, Ramada International Hotels and Resort, has been undergoing a reorganisation aimed at improving efficiency. A new division has been created to manage Ramada's growing interests in the US.

The company said that it had cut its stake in Asia Television from 47.5 per cent to 27.5 per cent. It gave no details of the price.

● Sumitomo Realty & Development, Japan's third largest property developer, said it would post a Y48bn ($458m) extraordinary loss in the year to end-March after a wholly-owned subsidiary, Sumitomo Fudosan Finance, writes off Y56bn of bad loans, Reuter reports from Tokyo.

Sumitomo Realty will make up for some of the loss by selling facilities in Kyoto for Y38.4bn it said.

Hopewell posts 83% rise after six months

By Louise Lucas in Hong Kong

Hopewell Holdings, the Hong *Kong property and* construction group controlled by Mr Gordon Wu, yesterday announced an 83 per cent leap in profits to HK$1.5bn (US$194m) for the six months to December 31, up from HK$843.5m in the same period the previous year, due to an exceptional item which yielded 73 per cent of earnings.

Earnings at the operating level slipped 8 per cent to HK$358.9m, reflecting the role played by November's HK$1.2bn spin-off of Consolidated Electric Power Asia (CEPA), a vehicle incorporat*ing Hopewell's power stations.*

The results put Mr Wu on track to reach the doubling of full-year earnings that he forecast in November. This would require profits in the full year to reach HK$4bn.

However, if achieved it will be on the back of certain rever*sals in strategy, including* the proposed sell-off of the remaining 51 per cent of a 44-storey residential tower block and car park in Happy Valley. This is likely to yield profits around HK$850m, according to early estimates.

CEPA itself turned in net *profits of HK$20.5m, which* according to Hopewell calculations equates to HK$101.7m on a pro-forma combined basis, and compares with HK$60.8m in 1992. The company did not undertake any business until November 1993.

Hopewell also benefited from a sharply lower tax bill in 1993, at HK$63.2m compared with HK$85.6m in the previous interim. The Hong Kong profits tax levy was slashed to less than one third of the 1992 interim bill, partly due to the 1 per cent cut in profits tax.

Earnings per share rose to 80 per cent to 36 cents from 20 cents in 1992. Directors are proposing an 18 cent dividend, up from 16 cents.

NEWS IN BRIEF

Renong posts 12% rise to M$107m

Renong, the Malaysian conglomerate which is closely connected to the governing United Malays National Organisation political party, has announced pre-tax profits of *M$107m (US$39m) for the six* months months to December 31 1993, writes Kieran Cooke in Kuala Lumpur.

The six-month profit was a 12 per cent rise on a year ago, though overall group turnover fell 37 per cent to M$136m.

Renong, once a diversified group with interests in many areas of the Malaysian economy, has recently been focusing on infrastructure developments.

United Engineers Malaysia, the Malaysian construction and engineering company in which Renong has a controlling stake, has announced pretax profits for the year ending December 31 1993 of M$237m, an increase of 18 per cent over the 1992 figure.

Doubt over Swedish paper group buy

Svenska Cellulosa, the Swedish pulp and paper group, said it would not proceed with its purchase of an 89.8 per cent stake in the French packaging company Otor Holding unless it could also acquire the remaining 10.2 per cent held by Stora Billerud, a subsidiary of Stora AB, Europe's largest forest products group, AP-DJ reports from Stockholm.

Tax credit helps Shell Australia

Shell Australia, part of the Anglo-Dutch oil company and currently in the throes of spinning off the bulk of its metals interests, yesterday announced after-tax profits of A$266m, (US$189m) up from A$181.2m in 1992, writes Nikki Tait in Sydney.

However, the improvement was due to a A$88.3m income tax credit, and pre-tax operating profits slipped from A$296.7m to A$267.4m.

Most sectors showed an improved performance, with the core upstream oil and natural gas division making A$184.2m after tax but before allocation of financing costs, compared with A$140m a year ago.

Star TV invests in Chinese films

Mr Rupert Murdoch's Star TV said it had entered an agreement to invest in more than 50 Chinese language films in the next three years *for its new* Chinese pay-television channel, Reuter reports from Hong Kong.

Under the deal, Media Asia Films will supply the feature films exclusively to Star after their theatre and video release.

Chemical compound that spells trouble

Japan's petrochemical groups face falling demand and rising costs, writes **Paul Abrahams**

When Japan's petrochemicals companies close their books for the 1993 financial year tomorrow they will make sorry reading. The country's 12 largest makers of ethylene, the basic building block for plastics, are expected to post combined losses of Y51.6bn ($493m) for the year to the end of March.

Like much of Japanese heavy industry, the sector, one of Japan's most important manufacturing industries with sales of more than Y6,000bn, is being plagued by poor domestic demand and high costs, as well as wilting exports caused by the high yen and increasing Asian competition.

*The question is whether Jap*anese petrochemicals manufacturers' problems have been caused merely by the longest and deepest recession since the second world war, or whether a secular change is occurring which threatens their long-term viability.

In the short term, the industry's problems are severe enough. The sector is haemorrhaging red ink. "Almost every Japanese plastics manufacturer *is losing* money *at the* moment," says Mr Yukio Murakami, director of Chem Systems Japan, the specialist consultants.

The reason for the plunge in profitability is simple, explains Mr Hiromasa Yonekura, director of basic chemicals at Sumi*tomo Chemical, one of Japan's* largest plastics makers. "Demand is falling at the same time that supply is increasing."

Demand for various grades of plastic was down between 5 per cent and 10 per cent last year and is expected to fall 7 per cent this year, according to Mr Yonekura. The sector's largest customers – the automotive, electronics and construction industries – are all suffering from the recession.

The drop in demand would be bad enough on its own, but the industry compounded its misery by increasing capacity. "During the late 1980s we were making record profits for about five years. Everybody expected that to continue. All the companies made the same mistake of adding capacity simultaneously," says Mr Yonekura.

As a result, ethylene capacity increased from 4.7m tonnes a year in 1987 to 7m tonnes this year, when demand is expected *to be only 5.8m tonnes.*

The industry is still inflicting additional wounds, adding yet more capacity this year. Mitsubishi is commissioning a new plant, adding 300,000 tonnes a year. A massive 700,000 tonnes a year complex, built by Maruzen, Mitsui Petro*chemical and Sumitomo Chem*ical, has just been completed and is scheduled to come on stream later this year.

Not surprisingly, given the imbalance between supply and demand, plastics prices have tumbled. The price of styrene monomer, used to make polystyrene, has fallen from a peak in 1992 of Y120 per kg to only Y60. *Mitsubishi Petrochemical* says Japanese domestic prices are so low that the company is incapable of making money at the moment.

Although domestic demand is dire, Japanese petrochemicals companies have been unable to export their way out of trouble. The groups are handicapped by high costs compared with international competitors.

In any case, international *prices are so low that Japanese* manufacturers are exporting below fixed costs at the moment, says Mr Murakami. The appreciation of the yen has exacerbated the Japanese companies' problems.

One bright spot is that the rise in the yen has not been followed by an increase in imports.

Most Japanese petrochemicals manufacturers acknowledge the existance of a secular shift in demand from the domestic market to the rest of Asia. "Our customers, such as the Japanese automotive and electronics companies, are migrating to low-cost manufacturing sites overseas. We will have to follow," says Mr Yonekura. Chem Systems estimates plastics demand in east Asia, excluding Japan, will *increase by 7.8 per cent a* year until the end of the decade.

The migration has already begun. Sumitomo has set up a joint venture in Singapore with Shell to manufacture polypropylene and low-density polyethylene. Mitsubishi Petrochemical is building a styrene monomer plant at the same site. Idemitsu has a joint venture with BP Chemicals and Petronas of Malaysia to manu*facture polyethylene in Malay*sia, and Showa Denko and Marubeni have combined to set up a polyethylene plant in Indonesia.

"The future of the Japanese industry is outside Japan," says Mr Yonekura. "We can take advantage of the high value of the yen to invest elsewhere. And, in spite of the red ink, we can always borrow whatever we need."

But although Japanese manufacturers believe their long-term future is outside Japan, they are unwilling to face up to the inevitable decline of their domestic market. Faced by massive domestic losses, Japanese plastics makers have been implementing stop-gap measures to reduce the damage. Plants have been moth-balled, maintenance peri*ods extended and plans for new* plants shelved. Just-in-time delivery is being abandoned. The number of grades being offered to clients has also been cut.

But such fiddling does not deal with the root cause of the sector's difficulties. Capacity is *still not being cut. Historically,* the Ministry of International Trade and Industry intervened at such moments to encourage consolidation. In the early 1980s, it co-ordinated a 36 per cent cut in capacity. However, this time Miti is unwilling to adopt such a role, at least in part because of US complaints about its interference.

Without the guiding hand of the Miti, little rationalisation has occurred. "The industry understands the problem. It understands the solution. The problem is doing anything about it," says Mr Murakami.

Admittedly, a few companies, such as Idemitsu Petrochemical, Showa Denko and Asahi Chemicals, are setting up joint ventures to pool their resources. Two large groups, Mitsubishi Petrochemical and Mitsubishi Kasei, have announced they will merge, forming Japan's biggest petrochemicals manufacturer.

However, industry observers question the benefits of the move. "Mergers are all very well, but they're only really of use if you then cut staff. But Japanese companies are still reluctant to do that," says Mr Murakami.

Japanese ethylene supply/demand balance (thousand metric tons)

	1990	1991	1992	1993	1994	1995	1996	2000
Capacity	5,975	6,132	6,432	7,032	7,032	7,032	7,032	*8,232
Supply	5,810	6,142	6,103	5,740	5,809	6,122	6,474	7,417
Demand	5,838	6,052	6,022	5,752	5,809	6,122	6,474	7,417
Inventory	(2)	-	3	-	-	-	-	-
Net trade	(26)	90	78	(12)	-	-	-	-

*Allows for some new projects and debottlenecking

Source: Chem Systems Japan

INTERNATIONAL COMPANIES AND FINANCE

The costs of quicker settlement

SEC share-trade reforms do not suit everyone, writes Patrick Harverson

Although it was six and a half years ago, the repercussions of the stock market crash of October 1987 are still being felt on Wall Street.

The latest seismic ripple from 1987 comes in the form of a rule proposed by the Securities and Exchange Commission that will shorten the period in which investors in the US have to settle their securities transactions.

Currently, after a trade has been executed on US financial markets, investors have five days to either pay for securities they have bought or deliver securities they have sold. Under the new rule, the SEC wants to reduce the settlement period to three days.

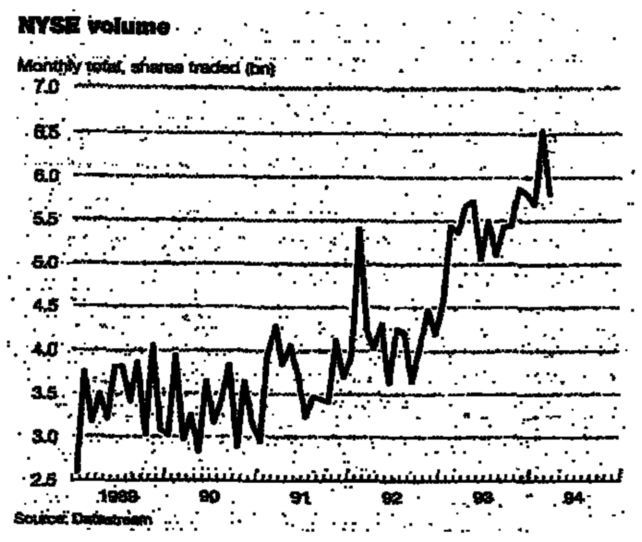
The rule – called T+3, for trade day plus three – comes into effect in June 1995, and is designed to reduce risk in the US securities markets by cutting the number of unsettled trades at any one time. It will also make it harder for investors to renege on transactions during periods of market volatility, which is what happened too often during the 1987 crash.

One of the key recommendations made by the Brady Commission which investigated the 1987 crash was that the settlement period should be reduced.

Yet, the planned introduction of T+3 has not been welcomed by everyone in the securities business. Although most firms agree that reducing settlement risk is a good thing, some are unhappy at the prospect of having to spend millions of dollars to update their settlement systems to handle T+3.

The smaller, regional brokers feel particularly exposed. The big firms, which are used to settling institutional transactions electronically, should find it relatively straightforward, if not necessarily cheap, to adapt their systems to retail business.

Smaller firms outside the main financial centres, however, do most of their business with individual investors, and many of their retail trades are settled only after cheques or securities have been delivered by the US mail, a notoriously slow and unreliable service.



As one stockbroker at a retail firm explains: "In most cases, unless the client has funds in an account with us, there is no way we are going to be able to send a confirm [trade confirmation slip] out to a client, and get a cheque back through the mail, and clear it, all within three days."

Also, when many individual investors buy shares they want the stock certificates delivered to them, a demand which only complicates and slows the process further.

The smaller brokerage houses know that if they are to meet the requirements of T+3, they have either to invest in an electronic trade settlement system that links the retail customer with the broker, or set up facilities enabling customers to keep funds permanently on account at the firm.

The problem with the first choice is that there is little chance that such a system will be developed soon. For it to work, every retail customer would need access to a computerised network, through which they could transfer funds and securities to their brokers.

Brokerage houses, therefor, are more likely to take the second route. Many will do so reluctantly, because they would have to start acting like banks, keeping clients' funds and securities on deposit and offering bank-style services such as cheques, electronic funds transfer and cash management accounts.

Some of the big brokers already offer bank-style services as part of their asset management business. However, for the smaller firms, setting up the systems to provide such services would be prohibitively expensive.

Even those firms which could afford to offer clients bank-style services are not necessarily keen on the idea of having to operate more like banks.

Mr Peter Devine, vice-president of operations and administration at the brokerage firm Oppenheimer, says: "The momentum is gathering for brokerage firms to offer more banking services. Yet, traditionally, brokerage firms are good at execution services, investment advice and clearance. Banking services have not been our forte, although I'm not saying we don't have the expertise to offer them."

The securities industry is also worried that T+3 will bring more banks into the broking business. Although banking and stockbroking have been kept separate in the US by law, a few banks have been allowed to offer customers brokerage services through separate subsidiaries. With their experience in deposit-taking, asset-gathering and funds transfer, they could prove powerful competitors for the broking community.

Any bank keen to develop this business, however, will be closely watched by industry regulators. While bank deposits are federally insured, money held in an account at a bank's brokerage subsidiary enjoys no such guarantee – regulators do not want customers confused about whether their funds are insured by the government or not.

The brokerage industry's unhappiness was clear when the SEC last year asked firms to respond in writing to their T+3 proposal. Of the 349 replies, a clear majority – 248 – was critical of T+3. The SEC, however, believed reducing settlement risk was worth the disruption to the industry.

Competition is increasing between international markets for stock listings and order flow, and the volume of cross-border securities transactions is growing. In the face of these developments, the agency is eager to ensure the US does not fall behind markets in those countries which settle trades in less than five days.

Reform of the settlement system is unlikely to stop at T+3. Regulators see it as only the first step in a process leading to securities transactions being executed and settled on the same day, as happens in the US government securities market.

If US brokers are finding it difficult adjusting to T+3, wait until they are faced with T+0.

Casino defies sector weakness with rise

By Alice Rawsthorn in Paris

Casino, the French food retailer, last year managed to shrug off the pressures on the French supermarket sector with a 2.3 per cent increase in net profits, to FFr451m ($78.8m), against FFr441m in 1992.

The group, which expanded dramatically in 1992 with the acquisition of the Rallye hypermarket chain, has since been rationalising its interests by selling peripheral businesses and reorganising core food retailing business.

Mr Antoine Guichard, chairman, said its French stores had been affected by the recession, which had triggered a price-cutting battle in the supermarket sector. However, he said Casino was making progress with its expansion plans in the US and Mexico.

Turnover rose 2.7 per cent to FFr72.52bn, with operating profits increasing by 12.8 per cent to FFr1.27bn.

However, the increase in net profits was constrained by a sharp reduction in exceptional profits, which fell to FFr9m from FFr94m in 1992. Earnings per share rose 24.5 per cent to FFr6.61.

Casino plans this year to limit capital spending to FFr1.85bn, against FFr2.19bn last time.

The group's main initiative is an experiment with "AS des Prix", a new discounting concept being tested in the Lyon area. If successful, it will be adopted over the next two years by all Super Rallye stores.

La Rinascente seeks to increase capital

By John Simkins in Milan

La Rinascente, Italy's largest retailing group, plans a substantial capital increase.

The move has prompted speculation in Milan that La Rinascente, which is controlled by the Agnelli family's Ifil holding company, is planning to put in a bid for the Gs supermarkets and Autogrill restaurants, which are being sold as part of the government's privatisation of the remains of its SME foods group.

La Rinascente is to raies a total of L48.7bn ($29.8m) in new capital through the issue of ordinary shares. The company also plans a L390bn debenture loan to be co-ordinated by Mediobanca.

La Rinascente, together with the Centromarca foods consortium and FinComit, the finance arm of Banca Commerciale Italiana, has expressed interest in the SME concerns.

La Rinascente said group stores increased sales by 10.7 per cent, to L5,579.4bn, in 1993. Net profits were up from L102.2bn to L105.3bn. It is lifting its dividend from L190 to L200.

● Belleli, the Mantua-based engineering group with a strong presence in the Middle East, increased group sales to L1,380bn in 1993, compared with L1,295bn the previous year.

● Snia Fibre, the fibres arm of the Fiat group, has won shareholder approval for a L152.5bn capital increase to tackle heavy restructuring costs. Snia Fibre incurred a net loss of L49.6bn in 1993, against a loss of L86bn in 1992.

INTERNATIONAL CAPITAL MARKETS

US long bond yield nudges 7% on consumer data

By Frank McGurty in New York and Antonia Sharp in London

The yield on the long-dated US Treasury bond yesterday morning again crept up to within a hair's breath of the 7.00 per cent barrier as traders reacted to news of an unexpected jump in consumer confidence.

By 11am, the benchmark 30-year government bond was ¼ lower at 90¾. The yield climbed to 6.99 per cent, after dipping below the 7.00 per cent level the previous session on a big decline in oil prices.

At the short end, the two-year note was down $\frac{1}{32}$ to 99$\frac{23}{32}$, to yield 5.158 per cent.

After Monday's half-hearted rally, yesterday's session opened on a weak note, with many retail accounts staying on the sidelines before Friday's release of March employment data, a keenly watched measure of economic strength.

Forecasts centre on an increase of 250,000 in non-farm payrolls, a figure which would suggest a solid recovery from the weather-related slowdown experienced in the previous two months.

Such a pattern was evident in the Conference Board's latest reading on consumer confidence. The board's March index came in at 86.7, well ahead of February's desultory 79.9.

GOVERNMENT BONDS

Against the backdrop of last week's interest rate boost and the approach of the employment report, the news was enough to push prices across the yield curve moderately lower.

Conversely, the market chose to ignore a weaker-than-expected increase in new home sales in February. Severe weather may have undermined the significance of the setback in the housing sector.

■ UK government bonds fluctuated in fairly light trading yesterday but the underlying trend remained weak as political concerns and a softer pound kept investors on the sidelines, traders said.

Further liquidation of positions at the short end of the market kept downward pressure on gilts, so much so that the market was now discounting base rates of 6 per cent by the end of this year and 8 per cent by the end of 1995.

The June contract of the long gilt future on Liffe fell by 1$\frac{1}{32}$ point in the late afternoon to 105¼, down from the day's best level of 107¾.

However, there was some optimism that today's auction of the Bank of England's first offering of floating-rate notes for 15 years would proceed smoothly. Traders forecast that the £2.5bn offering of five-year notes would be covered by between 1½ and 2½ times. Some traders expected most of the bids to come in at 99¾, above the Bank's minimum bid price of 99½, which would imply a discounted margin of $\frac{1}{16}$ below Libid.

Nevertheless, the market's overall weakness weighed on the when-issued price of the notes which fell from par to around 99.80, traders said.

■ Italian government bonds failed to build on Monday's gains despite the accuracy of the election outcome rumours which had propelled the market higher. "It has been a classic case of buying on the rumour and selling on the fact," said Mr André de Silva, a market strategist at Paine-Webber.

The weaker tone of the market also reflected investor concerns about the ability of Mr Silvio Berlusconi's right-wing alliance to form a government. These doubts have been fanned by the tension between the Northern League of Mr Umberto Bossi and Mr Gianfranco Fini of the neo-fascist MSI/National Alliance, Mr de Silva said.

Mr Julian Callow, European economist at Kleinwort Benson, said Mr Berlusconi's pro-growth policies could be negative for the long end of the Italian government bond market. A loose monetary policy and less restraint on fiscal tightening would make it difficult to reduce Italy's public sector deficit and would fan inflation, he said.

The June contract on 10-year Italian government bonds on Liffe stood at 110.30 in late trading, down 1.28 point on the day and well below the day's best level of 112.75.

■ German government bonds outperformed other European bond markets, supported by hopes that the Bundesbank would announce a further cut of up to five basis points in its repo rate today. The rate fell by eight basis points to 5.80 per cent last week. The June bund future on Liffe eased by 0.23 point to 95.93 in the late afternoon.

However, some analysts warned that the sharp rise in call money yesterday due to a month-end liquidity squeeze could make it difficult for the Bundesbank to engineer a further reduction this week.

Some German credit institutions were thought to have taken advantage of the Bundesbank's 6.75 per cent Lombard emergency lending facility in order to cover their minimum reserve requirements.

CBoT finds way to stay in Globex

By Tracy Corrigan

The Chicago Board of Trade said yesterday it would put forward a counter-proposal designed to allow the exchange to remain a partner in Globex, the electronic futures trading system jointly developed by the CBoT, the Chicago Mercantile Exchange and Reuters.

However, agreement between the various parties seems unlikely, unless the CBoT is willing to back down on several key issues.

The CBoT board of directors voted on Monday to continue participation in Globex, "subject to certain conditions specified by the board".

A CBoT spokesman declined to elaborate on the board's demands but said that "it means that we are interested in continuing participation in Globex, if the CME and Reuters can agree to certain points".

Earlier this month, the CBoT declined to join a new agreement between Reuters, the CME and the Matif, the French futures exchange whose products have been most heavily traded on Globex.

Under the new plan, Reuters releases participating futures exchanges from some financial obligations and creates a management consortium that gives any participating exchange an equal voice in the day-to-day running of the system.

In return, the exchanges make a commitment to "seamless" trading – starting Globex trading immediately after the exchange's official close – and agree not to use any other electronic trading systems to compete with Globex.

Unless the CBoT's new proposal shows a willingness to budge on these key issues, a fresh agreement including the CBoT seems impossible.

Ms Ros Wilton, director of Reuters transaction products, said yesterday that Reuters believed these two issues were "the main criteria for the success of Globex". She added that she looks forward to hearing any proposals by the CBoT.

Any fresh plan would have to be formulated before April 18, as the CME has given notice of its intention to drop out of the existing agreement. If that lapses, the two-year fall-back plan agreed last month would come into force, without the CBoT's participation.

Steady demand for Deutsche Finance's DM1bn offer

By Sara Webb

A handful of borrowers braved the international bond market yesterday as underlying government bond markets remained volatile, keeping plenty of traditional institutional investors at bay.

Deutsche Finance (Netherlands) launched a DM1bn, five-year deal with a 5.75 per cent coupon. Deutsche Bank, the lead manager, reported good demand from retail investors in Switzerland, the Benelux countries and Germany, but admitted activity was slower than usual.

Deutsche Bank said it held the yield spread steady at 25 basis points over the 5 per cent Treuhand issue. However, the bonds traded outside fees at 99.15-99.20 by late afternoon as the underlying government bond market tumbled.

Bank Austria, Austria's largest bank, tapped the Eurolira sector of the bond market with a L170bn deal, hoping to take advantage of favourable swap opportunities and investor enthusiasm for lira-denominated paper in the wake of the general election.

The triple-A rated bonds carry an attractively high coupon of 9.125 per cent and have a 10-year maturity, although they are callable after two years. The proceeds were swapped into floating rate dollars to give sub-Libor funding.

INTERNATIONAL BONDS

BCI, one of the joint lead managers, noted that it could take some time for Mr Silvio Berlusconi, leader of the Forza Italia party, to form a new government.

It added that prospects for lira-denominated paper were favourable, given that interest rates are expected to fall and there is scope for the lire to appreciate against other European currencies.

BCI quoted a redemption yield of 9.42 per cent based on a 10-year maturity, and of 10.19 per cent if the bonds are called after two years.

One syndicate official said the borrower was in the enviable position of being able to call the bonds if interest rates decline rapidly, allowing Bank Austria to refinance at more attractive rates.

"Whichever way you look at it, investors are going to lose out – the chance of seeing capital appreciation is better if they buy longer-dated paper," said one official, adding that there is still plenty of Eurolira paper "sitting around" following the flood of new issues earlier this year. The bonds traded at 98.35 by late afternoon, within full fees.

The Kingdom of Sweden took advantage of a favourable swap opportunity in the Dutch guilder sector of the bond market, launching a Fl 400m four-year issue with a coupon of 5.75 per cent. The borrower obtained funding at about 20 basis points below Libor by swapping into floating rate guilders.

While guilder experts said the deal was sensibly priced, yielding 5.885 per cent at the re-offer price of 99.53, syndicate officials said it would take time to sell the issue given market conditions.

Sweden's foreign currency borrowing programme for 1994 is about $10bn-$11bn, and in the first three months it has achieved more than half.

NEW INTERNATIONAL BOND ISSUES

Borrower	Amount m.	Coupon %	Price	Maturity	Fees %	Spread bp	Book runner
D-MARKS							
Deutsche Finance(Neths.)	1bn	5.75	101.32	May.1999	2.00	-	Deutsche Bank
YEN							
Mitsubishi Corp. Finance(a)	7.5bn	(b)	100.20	Jul.1997	0.20	-	Mitsubishi Finance Intl.
GUILDERS							
Kingdom of Sweden	400	5.75	99.53R	Apr.1998	0.25R	+15 (c)	ABN Amro Bank
ITALIAN LIRE							
Bank Austria(d)	170bn	9.125	100.25	Apr.2004	2.00	-	BCI/ BNL
SWISS FRANCS							
US West Communications★	*100*	*4.75*	*102.125*	*Apr.1999*	-	-	*Swiss Bank Corp.*

Final terms and non-callable unless stated. The yield spread (over relevant government bond) at launch is supplied by the lead manager. ★Private placement. R: fixed re-offer price; fees are shown at the re-offer level. a) Callable on 18/7/96 at par. b) 3.15% to 18/7/96 and 3.8% thereafter. Short 1st coupon. c) Over interpolated yield. d) Callable on 29/4/96, and annually thereafter, at par.

SocGen's derivatives boost

Société Générale is preparing to launch a derivative product – known as Boosts - aimed at investors who expect a period of stability in a particular market, writes Tracy Corrigan.

Boosts is an acronym for "Banking on overall stability". It is designed for long-term institutional investors, particularly those whose funds are limited to certain markets, who seek to enhance their returns during periods of stagnation.

The purchaser of a Boost anticipates that a certain instrument, such as a government bond, will trade within a certain band for a specific period of time. Every day the underlying instrument remains in the band, the purchaser earns $1 (if the underlying instrument is denominated in dollars). Thus if a one-year Boost remains in this range throughout its life, the investor earns $365 (less the upfront cost of the product). Existing strategies such as "straddles", "strangles" and "butterflies", all using options, express a similar view on the market.

WORLD BOND PRICES

BENCHMARK GOVERNMENT BONDS

		Coupon	Red Date	Price	Day's change	Yield	Week ago	Month ago
Australia		9.500	08/04	113.5900	–0.470	7.30	7.14	6.94
Belgium		7.250	04/04	100.2000	+0.400	7.22	7.30	7.06
Canada *		6.500	06/04	91.3000	–0.450	7.75	7.60	7.03
Denmark		7.000	12/04	100.7200	+0.120	6.90	6.85	6.66
France	BTAN	8.000	05/98	106.8750	–0.200	5.76	5.78	5.42
	OAT	5.500	04/04	92.1400	–0.420	6.59	6.45	6.35
Germany		6.000	09/03	97.9800	+0.290	6.28	6.34	6.21
Italy		8.500	01/04	85.7700	–0.100	9.16†	9.37	9.42
Japan	No 119	4.800	06/99	106.0750	-	3.43	3.52	3.42
	No 157	4.500	06/03	103.2980	+0.760	4.01	4.29	3.79
Netherlands		5.750	01/04	94.6200	+0.120	6.51	6.40	6.18
Spain		10.500	10/03	109.0500	–0.150	9.03	8.61	9.09
UK Gilts		6.000	08/99	94–09	–22/32	7.31	6.65	6.47
		6.750	11/04	92–12	–23/32	7.83	7.35	7.14
		9.000	10/08	108–25	–28/32	7.97	7.51	7.31
US Treasury *		5.875	02/04	94–10	–8/32	6.67	6.55	6.16
		6.250	08/23	80–21	–6/32	7.00	6.95	6.68
ECU (French Govt)		6.000	04/04	93.0500	–0.150	6.98	6.88	6.71

London closing, *New York mid-day. Yields: Local market standard.
† Gross annual yield (including withholding tax at 12.5 per cent payable by nonresidents)
Prices: US, UK in 32nds, others in decimal. Source: MMS International

US INTEREST RATES

Lunchtime / Treasury Bills and Bond Yields

		One month	3.60	Two year	5.14
Prime rate	6¼	Two month	3.52	Three year	5.53
Broker loan rate	5	Three month	3.58	Five year	6.12
Fed.funds	3½	Six month	3.97	10-year	6.84
Fed.funds at intervention	-	One year	4.39	30-year	6.99

BOND FUTURES AND OPTIONS

France

■ NOTIONAL FRENCH BOND FUTURES (MATIF)

	Open	Sett price	Change	High	Low	Est. vol.	Open int.
Jun	123.60	122.74	-0.30	123.62	122.58	189,911	138,018
Sep	122.66	122.04	-0.30	122.66	121.94	1,041	12,725
Dec	122.16	121.34	-0.30	122.16	122.16	2	-

■ LONG TERM FRENCH BOND OPTIONS (MATIF)

Strike Price	CALLS Apr	CALLS Jun	CALLS Sep	PUTS Apr	PUTS Jun	PUTS Sep
123	0.25	1.59	-	0.47	1.88	-
124	0.05	1.15	-	1.30	2.41	-
125	-	0.73	-	2.27	3.00	-
126	-	0.47	0.67	-	3.70	-
127	-	0.27	0.46	-	4.47	-

Est. vol. total, Calls 59,626 Puts 20,907 . Previous day's open int., Calls 394,543 Puts 272,114.

Germany

■ NOTIONAL GERMAN BUND FUTURES (LIFFE)* DM250,000 100ths of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Jun	96.46	96.09	-0.07	96.72	95.90	124206	203211
Sep	96.15	95.81	-0.07	96.15	95.80	182	5379

■ BUND FUTURES OPTIONS (LIFFE) DM250,000 points of 100%

Strike Price	CALLS Jun	CALLS Sep	PUTS Jun	PUTS Sep
9600	1.24	1.49	1.15	1.68
9650	0.98	1.26	1.39	1.95
9700	0.76	1.06	1.67	2.25

Est. vol. total, Calls 10046 Puts 10438. Previous day's open int., Calls 272171 Puts 232396

■ NOTIONAL MEDIUM TERM GERMAN GOVT. BOND (BOBL)(LIFFE)* DM250,000 100ths of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Jun	100.85	100.56	+0.01	100.85	100.63	66	2330

Italy

■ NOTIONAL ITALIAN GOVT. BOND (BTP) FUTURES (LIFFE)* Lira 200m 100ths of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Jun	112.75	110.18	-1.40	112.75	110.10	71787	101473
Sep	110.50	109.83	-1.35	110.50	110.50	147	93

■ ITALIAN GOVT. BOND (BTP) FUTURES OPTIONS (LIFFE) Lira200m 100ths of 100%

Strike Price	CALLS Jun	CALLS Sep	PUTS Jun	PUTS Sep
11000	2.39	3.30	2.21	3.47
11050	2.13	3.07	2.45	3.74
11100	1.89	2.85	2.71	4.02

Est. vol. total, Calls 3122 Puts 4064. Previous day's open int., Calls 74439 Puts 69750

Spain

■ NOTIONAL SPANISH BOND FUTURES (MEFF)

	Open	Sett price	Change	High	Low	Est. vol.	Open int.
Jun	99.75	99.00	-0.11	99.75	98.88	60,042	96,622
Sep	-	99.98	-	-	-	-	-

UK

■ NOTIONAL UK GILT FUTURES (LIFFE)* £50,000 32nds of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Mar	107-22	106-26	-0-19	107-22	106-21	192	9393
Jun	106-26	105-22	-0-21	107-04	105-06	97232	172251
Sep	-	104-26	-0-21	-	-	0	107

■ LONG GILT FUTURES OPTIONS (LIFFE) £50,000 64ths of 100%

Strike Price	CALLS Jun	CALLS Sep	PUTS Jun	PUTS Sep
105	2-29	2-44	1-49	2-56
106	1-59	2-15	2-15	3-27
107	1-31	1-54	2-51	4-02

Est. vol. total, Calls 5691 Puts 2947. Previous day's open int., Calls 84725 Puts 72892

Ecu

■ ECU BOND FUTURES (MATIF)

	Open	Sett price	Change	High	Low	Est. vol.	Open int.
Jun	89.90	89.36	-0.12	89.98	89.24	1,744	6,143

US

■ US TREASURY BOND FUTURES (CBT) $100,000 32nds of 100%

	Open	Latest	Change	High	Low	Est. vol.	Open int.
Jun	107-25	107-12	-0-12	107-28	107-12	336,987	363,168
Sep	106-28	106-17	-0-11	106-29	106-17	2,802	43,403
Dec	-	105-14	-	-	-	1	1,234

Japan

■ NOTIONAL LONG TERM JAPANESE GOVT. BOND FUTURES (LIFFE) Y100m 100ths of 100%

	Open	Close	Change	High	Low	Est. vol	Open int.
Jun	111.60	-	-	111.80	111.55	1445	0

* LIFFE contracts traded on APT. All Open Interest figs. are for previous day.

FT-ACTUARIES FIXED INTEREST INDICES

Price Indices UK Gilts	Tue Mar 29	Day's change %	Mon Mar 28	Accrued interest	xd adj. ytd		Low coupon yield Mar 29	Mar 28	Yr. ago	Medium coupon yield Mar 29	Mar 28	Yr. ago	High coupon yield Mar 29	Mar 28	Yr. ago
1 Up to 5 years (24)	124.34	–0.38	124.82	1.81	2.68	5 yrs	7.35	7.19	6.71	7.59	7.43	6.99	7.68	7.53	7.19
2 5-15 years (23)	146.31	–0.63	147.24	1.91	3.75	15 yrs	7.87	7.77	7.88	7.97	7.89	8.31	8.25	8.16	8.55
3 Over 15 years (9)	163.78	–0.83	165.15	1.43	3.53	20 yrs	7.96	7.86	8.13	7.98	7.89	8.48	8.16	8.06	8.64
4 Irredeemables (6)	188.32	–1.88	191.93	3.31	1.47	Irred.†	8.07	7.91	8.54						
5 All stocks (62)	143.08	–0.60	143.94	1.83	3.34										

Index-linked							Inflation 5% Mar 29	Mar 28	Yr. ago	Inflation 10% Mar 29	Mar 28	Yr. ago
6 Up to 5 years (2)	184.85	+0.01	184.64	–0.06	2.53	Up to 5 yrs	3.19	3.18	2.24	2.25	2.24	1.35
7 Over 5 years (11)	179.03	+0.17	178.74	0.72	1.29	Over 5 yrs	3.45	3.46	3.44	3.26	3.27	3.25
8 All stocks (13)	178.75	+0.15	178.46	0.64	1.41							

Debentures and Loans						5 year yield Mar 29	Mar 28	Yr. ago	15 year yield Mar 29	Mar 28	Yr. ago	25 year yield Mar 29	Mar 28	Yr. ago
9 Debs & Loans (73)	133.34	–0.93	134.66	2.19	3.04	8.99	8.86	8.62	9.05	8.94	9.42	9.08	8.98	9.63

Average gross redemption yields are shown above. Coupon Bands: Low: 0%-7¾%; Medium: 8%-10¾%; High: 11% and over. † Flat yield. ytd Year to date.

FT FIXED INTEREST INDICES

	Mar 29	Mar 28	Mar 25	Mar 24	Mar 23	Yr ago	High*	Low*
Govt. Secs. (UK)	95.97	96.81	96.30	97.63	98.82	96.36	107.60	93.28
Fixed Interest	116.45	117.78	117.53	119.31	119.94	111.85	133.87	112.94

* for 1993/94. Government Securities high since compilation: 127.40 (9/1/35), low 49.18 (3/1/75). Fixed Interest high since compilation: 133.87 (21/1/94) , low 50.53 (3/1/75) . Basis 100: Government Securities 15/10/26 and Fixed Interest 1928. SE activity indices rebased 1974

GILT EDGED ACTIVITY INDICES

	Mar 28	Mar 25	Mar 24	Mar 23	Mar 22
Gilt Edged bargains	100.1	115.7	152.3	98.8	97.5
5-day average	112.6	110.8	107.0	94.4	95.0

FT/ISMA INTERNATIONAL BOND SERVICE

Listed are the latest international bonds for which there is an adequate secondary market. Latest prices at 7:00 pm on March 29

	Issued	Bid	Offer	Chg.	Yield
U.S. DOLLAR STRAIGHTS					
Abbey Natl Treasury 6½ 03	1000	94⅞	95⅛	–⅛	7.28
AlbertaProvince 9⅜ 95	600	105⅞	106⅛		5.35
United Kingdom 7⅛ 97	5500	104	104		5.84
Volkswagen Intl Fin 7 03	1000	100½	100⅞	+⅛	6.92
World Bank 0 15	2000	29¼	29½	–½	8.57
Abbey Natl Treasury 8 03 £	1000	96⅞	97¼	–⅛	8.51
Alliance Leics 11¾ 97 £	100	110¼	110¾	–½	7.54
British Land 8⅞ 23 £	150	91¼	91¾	–⅜	10.02

[illegible]

UK GILTS PRICES

[illegible]

Improvement results from lack of property and closure provisions

Taylor Woodrow achieves £30m

By Andrew Taylor, Construction Correspondent

Taylor Woodrow, the housebuilding, property and construction group, bounced back into the black in 1993 with pre-tax profits of £30.2m against losses of £94.5m, restated in accordance with FRS 3.

The improvement reflected the lack of large property and closure provisions which depressed the restated 1992 figure by £86.8m.

The final dividend is doubled to 1p for a total of 1.5p (1p), payable from earnings per share of 4.1p (22.4p losses). The rise in the dividend was unexpected but the shares were unchanged at 153p.

Profits also benefited from the absence of large provisions on prestige contracts such as the Channel tunnel, Euro-Disney and Storebaelt which led to a restated £61.3m construction loss in 1992.

Last year contracting made a £1.3m pre-tax profit following the settlement of claims on Euro-Disney, Storebaelt and John Wayne airport in the US. Outstanding claims on the Channel tunnel have still to be resolved but were subject to an interim settlement last summer preventing cash losses.

Mr Colin Parsons, chairman, said construction turnover had fallen by 19 per cent to £721m reflecting the group's determination to avoid potentially lossmaking contracts.

Housebuilding moved from a £26.1m loss to a £9m profit with completed sales in the UK, north America, Australia and continental Europe rising by 31 per cent to 2,769.

In the UK housing completions jumped by 60 per cent to 1,887. There was a also a strong performance in Florida, offset by a $10m write-down of housing land in California.

The group announced plans to raise up to C$35m (£17.8m) to fund expansion at its 58.8 per cent owned Canadian and US housebuilding subsidiary through a public issue of 3m shares. Following the issue Taylor Woodrow's stake will fall to 54.1 per cent.

Commercial property moved from a £14.2m loss to a £14.5m profit.

Some £69m had been raised from property disposals including £31m from the US and Australia where the company was withdrawing from the market.

Ashley Ashwood

Colin Parsons (left), with Tony Palmer, chief executive: determined to avoid potentially lossmaking contracts

● COMMENT

Management deserves full marks for the way in which it has cut overheads, brought the balance sheet under control and refocused a series of rather poorly run separate companies into a coherent business strategy. The rise in the dividend was a good move psychologically. It was disconcerting, however, that more information was not available on the status of contracting provisions. The shares have had a good run of late and most of the good news is already in the price. Pre-tax profits of £45m would put the group on a prospective p/e of more than 24 times which is high enough given that contracting may yet cast a shadow over better housebuilding and commercial property results.

Blenheim knocked by French downturn

By David Wighton

Blenheim Group, the exhibitions organiser whose shares have almost halved over the past year, reported pre-tax profits of £45.2m for 1993 after a sharp downturn in its important French business. In the preceding 16 month period to December 1992 it reported profits of £49.7m.

Mr Neville Buch, chairman, said: "Despite difficult conditions Blenheim has delivered a creditable performance."

Blenheim's shares fell heavily last summer after a £76m convertible preference share issue in June was followed by downgraded forecasts.

The French recession hit Blenheim in the second half with space at its annual shows in France down by 10 per cent and another decline expected this year. Across the group revenues from the existing annual shows rose 4.4 per cent with operating margins rising to 25 per cent on turnover of £198.7m. However Mr Buch warned: "Exhibitions are late cycle with space sales responding some 15 to 18 months later than the general economic cycle."

The current year will also be affected by the absence of Batimat, its large biennial exhibition in France, which contributes an estimated 15 per cent of group profit.

Earnings per share reached 29.4p in 1993 against 32.4p in the preceding 16 months, including Batimat, or a pro forma 20.1p, without Batimat.

A final dividend of 6.85p (3p) gives a total of 10.25p up from pro forma 9p for 1992.

Blenheim ended the year with net debt of £26m including the convertible loan stock and negative shareholders' funds of £83.9m. The 1993 interest bill of £5m was covered ten times by operating profit.

● COMMENT

Mr Staffan Svenby, who moved up to managing director in November, has already started to bite into Blenheim's 1980s-style cost base. The programme for new exhibition launches has been halved, some existing shows will be axed and the 800-strong workforce slimmed. But exhibition profits remain highly sensitive to economic cycles – UK profits are now half their peak – and there is nothing Mr Svenby can do about the French economy. Given the long lead time for Batimat, next year's profits will be determined by French business confidence in the next few months and any sign of a double-dip recession will have analysts scurrying to downgrade their forecasts. That explains why the shares, down 5p at 343p, are trading on only 13 times next year's predicted earnings.

Pentos incurs £71m loss and makes £45m rights

By Paul Taylor

Pentos, the specialist retailing group which includes the Dillons bookshop, Ryman stationers and Athena cards and poster chains, plans to raise £45m through a 4-for-3 rights issue at 25p.

At the same time Pentos announced a £70.6m pre-tax loss for 1993 after taking significant write-downs and exceptional charges totalling £56.5m and passed the dividend.

Losses per share of 50.1p compared with earnings of 2.6p a year earlier when dividends totalled 1.5p.

However, the rights issue and other restructuring moves – including new bank facilities of up to £66.7m – were generally welcomed in the market and the Pentos share price closed 1½p lower yesterday at 29p.

The proceeds from the 191.9m share issue, which has been fully underwritten by Schroders, will mainly be used to reduce debt and shore up the group's battered balance sheet, seriously weakened by the substantial trading losses and exceptional items last year.

Shareholders' funds fell from £79.3m at the end of 1992 to £21.5m at the end of last year while bank borrowings, which peaked at £87m during September, fell to a seasonal low of £69.3m at the end of December. A year earlier the figure stood at £44.1m.

The group's auditors have qualified the 1993 accounts on a going concern basis, subject to the outcome of the rights issue.

Sir Kit McMahon, who replaced Mr Terry Maher as Pentos' chairman late last year, said yesterday that the rights issue "would strengthen the group's balance sheet and place the group in a better position to implement the changes necessary to restore profitability."

Mr Bill McGrath, chief executive since January 1, said the rights issue would provide "a firm footing for recovery" and unveiled details of a two-year business plan designed to restore profitability and "fulfil the potential" of the core retail businesses.

The sales-led recovery plan follows a detailed strategic review of each business conducted by Mr McGrath, formerly deputy chairman of Wickes, and is designed to emphasis the group's strengths.

The need for a far-reaching rethink of the Pentos business strategy was underlined yesterday by the group's 1993 results.

The near-£71m pre-tax loss, which compares with previous profits of £4m, came on flat turnover of £240.7m (£236.4m) including sales from continuing operations of £226.6m (£217m.)

Excluding exceptional items, Pentos incurred operating losses of £8.2m, compared with profits of £12.9m a year earlier.

As previously announced last year's results benefited from gross reverse premiums of £3.4m (£6.3m).

Interest costs increased slightly to £5.9m (£5.4m) resulting in losses before tax and exceptional items of £14.1m (£7.5m profit).

The £56.5m (£3.5m) exceptional items included an £18.7m provision for losses on the disposal of Ryman Computer Stores, of which £14.3m represented the goodwill write-off previously deducted from reserves.

Tibbett & Britten tops £24m

By Andrew Bolger

Tibbett & Britten Group, the distribution company, reported a sharp increase in sales and profits, mainly because of a full-year contribution from Silcock Express, the car distributor it bought at the end of 1992 for an initial £31.2m.

Tibbett's pre-tax profit rose by 64 per cent to £24.2m in the year to December 31, while sales increased by 56 per cent to £360m.

Mr John Harvey, chairman, said the group had also enjoyed significant underlying growth. Earnings per share rose by 37 per cent to 37.4p (27.3p). Of that increase, two thirds was due to Silcock and one third to organic growth.

The group on Monday further increased its involvement in the motor industry by agreeing to pay £15.4m in cash for Toleman, a lossmaking UK car distribution company.

Depending on its performance, Tibbett may pay up to a further £2m for Toleman, which in 1992 made a pre-tax loss of £1.4m on sales of £35.8m. Silcock will integrate its operations with Toleman to provide a more effective service for Ford UK, its largest UK customer, which has promised to grant the combined operation a long-term rolling contract on a prime supplier basis.

Mr Harvey said that although the trading environment was challenging, there was a high level of inquiry in all the group's markets and 1994 promised to be another lively year, offering substantial organic growth potential.

A final dividend of 9.7p makes a total for the year of 14.2p (11.8p).

● COMMENT

A 12p drop in the share price to 813p seemed a grudging response to figures which were in line with expectations. There may have been some concern over the ending of several contracts, but some changes are inevitable and the group was very upbeat about the level of recent inquiries. Just as impressive was the achievement in lifting net profit margin from 6.4 to 6.7 per cent at a time when there is widespread concern about pressure from food retailers – even if they now only account for about 20 per cent of group activity. Forecast profits of £28m put the shares on a prospective multiple of 19. The shares are not cheap at this level, but the group's track record and growth prospects justify the premium rating.

Alexon warns of slower recovery

By Peggy Hollinger

Alexon shares tumbled 22 per cent to 47p as the struggling women's wear group warned that recovery would take longer than expected.

Mr John Osborn, the chief executive appointed last year following a shareholders' rebellion and two profits warnings, said sales had been affected by the current economic climate and "the sheer volume of older stock that we have sold at discounted levels".

The group had also made fewer than expected savings on overheads, reducing costs by £2m against a target of £3m. Mr Osborn said Alexon aimed to make a further £5m in overhead savings this year.

The chief executive was confident, however, that the group was now on a "much sounder footing" after a year of reorganisation and the £16.4m rights issue in August.

Pre-tax losses were cut by £200,000 to £12m, on sales 3 per cent higher to £111m for the year to January 29. The deficit included exceptional charges of £4.35m (£12.1m) for rationalisation and operating losses of £2.35m from the now closed North American business.

Continuing businesses returned operating losses of £8.25m, against £9.59m last time. There was no dividend and losses per share fell from 53.9p to 30.38p.

Mr Osborn stressed the group's progress on reducing the stock burden, which precipitated last year's profits warnings and management reshuffle. Stocks had been cut through heavy discounting by £11m to £23.6m.

Net debt had also fallen from £23m to £10.7m, representing 48 per cent of shareholders' funds.

Mr Osborn said the launch of the Ann Harvey range of 16+ clothes had been successful. The brand had been extended from 20 to 38 shops as of last month.

The Alexon brand had increased sales modestly, although the outlook was more difficult than had been envisaged. Eastex had performed satisfactorily.

C&W Russian purchase

By Andrew Adonis

Cable and Wireless, the telecommunications group, has spent $39.9m (£27.3m) on a 25.1 per cent stake in Petersburg Long Distance, a private telecommunications concern, which is building a network in Russia's second city.

PLD has a 59 per cent stake in a joint venture with St Petersburg's state-owned telecommunications operator.

The company is building a network to help plug unmet demand for local, national and international telecoms services in the city, the directors stated.

PLD also has a 50 per cent stake in a cellular mobile communications venture in Kazakhstan.

Hodder Headline advances to £2.6m after reconstruction

By Raymond Snoddy

Hodder Headline, the publisher which has now virtually finished the reconstruction following the merger of Headline and Hodder & Stoughton, yesterday announced pre-tax profits for the year to end December up 27 per cent to £2.6m after exceptionals.

Exceptional costs and provisions including redundancy payments associated with the reorganisation totalled £6.5m, only slightly greater than expected.

Before the exceptional items operating and pre-tax profits were more than doubled at £4.6m and £4.5m respectively.

Earnings per share before exceptionals were up 4 per cent to 12.4p but after exceptionals there was a drop of 48 per cent to 6.2p.

Sales more than doubled to £51.1m, boosted by the second half revenues of Hodder & Stoughton following the merger.

There is a recommended final up 12 per cent to 3.35p, making a total of 5p (4.5p).

Mr Tim Hely Hutchinson, group chief executive said the benefits from the reorganisation were now beginning to flow and annual full-year savings of £4m net would become apparent from the middle of this year.

"This comprehensive overhaul, particularly of Hodder & Stoughton will be largely completed by the end of May and is the main story behind the figures this year," he said.

The group is planning a number of new ventures this year including the launch of an audio division. A new subsidiary is also being set up to publish low priced reprints – hardbacks at about £5.

Hodder has already had two number one best-sellers this year – Thomas Keneally's Schindler's List and Edwina Currie's A Parliamentary Affair.

The Hodder Headline share price closed down 1p at 407p.

CINVen to manage Royal portfolio

CINVen, the UK's second largest venture capital company is to take over management of the private equity portfolio of Royal Insurance Asset Management, writes Richard Gourlay.

Royal Insurance will invest alongside the pension funds of Barclays Bank, British Rail and British Coal, all of which are already managed by CINVen. CINVen takes over Royal's £40m private equity portfolio.

Royal is the latest to hand management of private equity investments to other professional managers.

Royal will be investing as much as Barclays and the British Rail pension funds in any CINVen deals, all of which individually invest slightly less than the British Coal pension fund.

● Schroder Ventures, meanwhile, has closed a £140m buy-out fund, the group's third fund. Mr Peter Smitham, managing partner, said Schroders' success "gave the lie" to the view that it was almost impossible to raise funds for new venture capital investment.

The fund's closing was delayed by the departure of Mr Jon Moulton, who resigned after a disagreement over strategy.

Interest costs behind decline at Jeyes to £5m

By Peggy Hollinger

A strong second half and acquisitions helped to cushion the decline at Jeyes, the cleaning products group which saw 28 per cent of its market value wiped out after a profits warning in June.

Mr Jimmy Moir, chief executive, said the inclusion for a full year of Globol, the German company acquired in 1992, had helped Jeyes to report a 4 per cent increase in operating profits to £6.6m for the year to January 1.

The pre-tax return, which fell 11 per cent to £4.9m, had been depressed by a 77 per cent increase in net interest charges to £1.38m.

Sales were 28 per cent ahead to £114.3m. Globol represents about 38 per cent of sales and slightly more of operating profit.

The restructuring programme had been accelerated after poor results in the first half when profits fell by 82 per cent to £374,000. Pre-tax profits in the second half recovered to £4.5m against £3.4m last time.

By the middle of this year five of Jeyes's 10 factories will be closed and warehousing and distribution transferred to third parties.

Restructuring costs of £2.9m to pay for these actions were largely offset by profits from asset sales of £2.6m.

Mr Moir said the UK division had been hit by aggressive discounting, although sales increased by 6 per cent to £62.5m. Margins were expected to remain under pressure in the new trading conditions, he said. The German market had remained stable, with gross margins maintained and a 4 per cent increase in revenues.

Capital expenditure increased from £6.5m to £9m to support the reorganisation programme. Gearing rose from 6.4 per cent to 58.8 per cent. This was expected to fall substantially when the restructuring programme was completed.

As forecast at the time of the profits warning, the final dividend is being increased to 4.8p for an 8.1p (7.6p) total. Earnings fell 24 per cent to 16.4p.

TransTec advances to £11m

By Paul Cheeseright, Midlands Correspondent

TransTec, formerly known as Transfer Technology, pushed up pre-tax profits by 19 per cent last year, helped by acquisitions but hindered by difficult trading in the automotive sector.

The specialist engineering group yesterday announced that pre-tax profits in the 12 months to end-December were £11.2m, compared with £9.45m in 1992. This produced earnings per share of 8.9p against 8.6p, a figure adjusted for last October's 5-for-1 subdivision of the shares.

During the current year, Mr Geoffrey Robinson, chairman, expects "continuing progress". For a group which exports 75 per cent of its production, the main growth will be in the US and, to a lesser extent, east Asia, but European markets seem likely to remain subdued.

"We remain cautious about any significant improvement over 1993," Mr Robinson said of the automotive market.

Last year TransTec suffered from the downturn of the European car market, and the contribution of the group's automotive division to operating profits fell from £3.88m to £2.53m.

Margins, both in this division and in the inspection systems division, were under severe pressure.

By contrast the control and manufacturing technology division, enlarged by two newly-acquired companies, pushed up operating profits from £5.33m to £8.28m.

Total operating profits were £12.3m, against £10.3m in 1992.

Turnover rose by £38.5m to £145m, with £32.3m of the increase coming from new acquisitions – the two companies of the control and manufacturing division, and one in the automotive division.

The final dividend is 2p, making 3.3p (3.2p) for the year. This is covered 2.7 times by earnings of 8.9p, the same as last time.

DIVIDENDS ANNOUNCED

		Current payment	Date of payment	Corres - ponding dividend	Total for year	Total last year
Adwest	int	2.1†	May 27	2	-	7.2
Alexon	fin	nil	-	nil	nil	3
Bailey (Ben)	fin	0.5	July 8	0.25	1.05☆	0.55
Bardon	fin	1.2†	July 15	1.2	2	2
Blenheim	fin	6.85	June 24	3	10.25	12‡
Brake Bros	fin	4.82†	July 1	4.35	6.82	6.2
Croda Intl	fin	5.45	July 4	5	8.4	7.75
Hammerson	fin	6.5†	June 1	6.5	10	10
Henderson High	fin	1.4	May 18	1.4	5.6	5.6
Hickson Intl	fin	5.15	-	5.15	8	8
Hodder Headline	fin	3.35†	May 20	3	5	4.5
Jeyes	fin	4.8	-	4.5	8.1	7.6
Johnston Group	fin	1	July 1	1	2	3.25
Jourdan (Thos)	fin	0.5	July 4	0.25	1	0.75
Lloyd Thompson	int	2.4†	May 20	2	-	6.7
Macfarlane	fin	2.4	May 26	1.93*	3.84	3.186*
NB Smeller	fin	2.63	June 27	2.51	3.57	3.45
Next	fin	4	July 1	2	5.5	2.5
OIS Inspection	fin	1.4	July 29	-	2.1	-
Pentos	fin	nil	-	0.8	nil	1.5
Proudfoot	fin	1.5	June 15	6	3.5	12
Psion §	fin	1.8	-	1.5	2.8	2.5
Ropner	fin	4.75	July 1	4.75	8.25	8.25
Rotork	fin	2.5	May 27	2.17*★	4.25	3.72*★
Servomex	fin	4.5	May 20	4	6.4	5.9
Taylor Woodrow	fin	1	July 1	0.5	1.5	1
Tibbett/Britten	fin	9.7†	May 27	8.1	14.2	11.8
Thorpe (FW)	int	1	May 16	0.8	-	2.67
Transtec	fin	2	July 4	1.95★	3.3	3.2★
UTV	fin	8.75	-	5.75	15	10
Watts Blake	fin	8.5	July 1	8	12	10.7

Dividends shown pence per share net except where otherwise stated. †On increased capital. §USM stock. *Adjusted for scrip issue. ★Adjusted for subdivision. ☆ For 18 months. ‡For 16 months.

Psion's £3m meets forecasts

By Alan Cane

Psion, manufacturer of hand-held computers and data communications products, saw pre-tax profits and sales match market expectations in 1993 helped by strong demand for the latest version of its palmtop computer and manufacturing efficiencies.

Profits before tax more than doubled to £3.03m (£1.42m) on turnover up 17 per cent to £41.2m (£35.1m).

Earnings per share rose from 4.33p to 9.14p and a final dividend of 1.8p (1.5p) is recommended, making a total for the year of 2.8p (2.5p).

Mr David Potter, founder and chairman, said he was opposed to paying larger dividends when the company was in a growth phase and would be absorbing cash.

He said there was no need for the company to raise fresh money in the immediate future but it had every intention of growing with its markets and would eventually need extra funding, "but only on the back of growth and success".

The company's four distinct product lines – the Series 3 palmtop computers, HC industrial hand-held computers, data communications devices and the original Organiser electronic notebook were all profitable.

Psion is the world's leading supplier of palmtop computers by volume – it is now producing some 20,000 a month.

Mr Potter said the company had been surprised by demand for the new Series 3a: "Notwithstanding record production volumes, demand could not be fulfilled and the supply of product was on allocation... it was only during the first quarter of 1994 that higher volumes of component supplies have allowed an increase in output."

Net operating cash flow was £5.78m compared with £3.2m in 1992 and working capital was reduced.

The group has surplus cash and negligible net gearing.

● COMMENT

Psion has had some harsh lessons about markets and management over the past three years but has recovered well. It now has a portfolio of products each of which is a leader in a growth area. Its datacommunications products, including credit card sized modems, look particularly exciting. More than 50 per cent of the group's hardware sales are now made outside the UK. Pre-tax profits of £5m look likely this year giving earnings of 15.2p on an undemanding prospective p/e of 14.9. It is a market sector rich in quicksands but Psion seems to have found firm footholds at last.

Bid battle costs restrict Watts Blake

By Tim Burt

Watts Blake Bearne, the clay mining and supply group, said its profits last year had been held back by the cost of fighting a hostile takeover bid.

The Devon-based group, announcing pre-tax profits of £7.94m (£7.25m), said its results for the 12 months to December 31 would have been better had it not faced an unwelcome offer by Sibelco, a privately owned Belgian company which owns 46.7 per cent of the group's shares.

Although Sibelco's 420p-a-share offer lapsed last September, WBB incurred £910,000 in exceptional costs fighting the bid.

Pre-exceptional profits for the group, which specialises in ball clay extraction for sanitaryware and tile manufacturers, however, rose by 22 per cent to £8.85m on increased turnover of £76.3m (£69.8m).

Mr John Pike, managing director, said: "We are beginning to see more positive signs, but in our main markets intense price competition remains a very difficult challenge."

Earnings per share rose marginally to 23.3p (23.1p), but the group highlighted a pre-exceptional earnings rise of 20 per cent to 27.7p.

A final dividend of 8.5p (8p), gives a total of 12p (10.7p).

Acquisitions help lift Brake Bros to £19m

By Peggy Hollinger

Acquisitions and an insurance claim fuelled a sharp jump in pre-tax profits at Brake Bros, the frozen food distributor which yesterday announced a 19 per cent increase to £19.1m in 1993.

Mr Frank Brake, managing director, was cautious in spite of the profits increase. "We do not foresee any dramatic change in the marketplace and are expecting it to remain flat this year – although we are hoping for better."

The main growth would come from acquisitions, including Country Choice Foods purchased in May for a shares consideration of £10m.

Sales were 26 per cent higher at £354m, helped by the inclusion for seven months of CCF. Continuing businesses were 10 per cent higher at £311m.

At the operating level, profits of continuing businesses improved by 3 per cent to £18m.

Acquisitions contributed a further £2.28m to operating profits.

The operating advance was held back by higher than expected losses of £2.3m (£1m) in the chilled foods business, and a nil contribution from France.

Frank Brake: frozen foods had increased market share

Operating profits also included a £1.8m insurance payment arising from the fire at a cold store in 1991.

The core frozen foods division had increased market share, Mr Brake said, with a 9 per cent increase in like-for-like sales.

However, margins had slipped back from 6.7 per cent to 6.5 per cent. Mr Brake said the group expected margins to stabilise in the current year.

The managing director said the chilled foods business would continue to make losses this year, although at a substantially lower rate. France was not expected to make a substantial contribution in 1994.

The final dividend was increased by 11 per cent to 4.82p for a total of 6.82p (6.2p). Earnings per share were 9 per cent higher at 27p.

● COMMENT

Brake Bros has done well to increase sales in a tough market, but the margins are showing the effects for the third successive year. While growth in the core frozen foods division appears to have slowed marginally in the second half, further progress is expected from Country Choice. Longer-term, France and chilled foods offer potential, assuming nothing goes wrong. Few expect Brake to race ahead in 1994 with the real growth pegged for 1995-96. Forecasts are for £21m this year. This puts the shares, which closed yesterday at 476p, on a multiple of about 17 times. While this may look high, the premium is lower than it has been for some time.

Misys cash call for software acquisition

By Paul Taylor

Misys, the computer services and application software group, yesterday announced plans to acquire Kapiti, a leading packaged banking software supplier, through a recommended cash and shares offer which values the unquoted group at £40m.

The £25m cash element of the proposed acquisition is to be funded by way of a 2-for-13 rights issue at 425p a share which is fully underwritten by Baring Brothers. Misys shares closed up 2p at 513p yesterday.

Kapiti, which reported pre-tax profits of £3.2m (£1m) on sales of £39.5m (£24.9m) last year, claims to be the second largest banking software supplier in the world and has a well established customer base.

The group, which has developed following the merger of Kapiti and Aregon in December 1989, has a strong and growing overseas business and a product development strategy which embraces the increasingly popular client/server computer network design.

Its products, which include Equation and Equinox banking software, are installed in more than 600 locations in 70 countries including a growing number of emerging markets. The market for licensed banking software products is currently estimated to be worth about £200m a year.

Kapiti's products should complement Misys' existing portfolio of software products which are aimed mainly at specialist vertical markets including the insurance broking, construction, hotels and higher education.

In particular, the acquisition, which is subject to shareholder approval at an extraordinary meeting on April 14, will broaden Misys' geographic base. At present only 3 per cent of Misys' £100m turnover is generated overseas. About 25 per cent of the combined group's sales will come from overseas.

Mr Kevin Lomax, Misys chairman, said: "The Kapiti acquisition represents an excellent opportunity for Misys to expand its business in terms of product mix, customer base and the geographic markets it serves."

Misys has received irrevocable undertakings to accept the offer from holders of more than 90 per cent of Kapiti's share capital.

£3m provided for rationalisation at main site in West Yorkshire

Hickson declines 9% to £22.1m

By David Wighton

Hickson International, the speciality chemicals group, reported pre-tax profits down by £2.2m to £22.1m in 1993 after providing £3m for rationalisation at its main site at Castleford, West Yorkshire.

The company, which has seen a series of boardroom upheavals in recent years, also said that Sir Gordon Jones was planning to step down as non-executive chairman.

Sir Gordon, 67, who is chairman of Yorkshire Water, was brought in three years ago as new management tried to sort out the group after a string of acquisitions in the late 1980s.

The restructuring at Castleford involves dropping a number of "non-core" product lines which are suffering from increasing competition from India and China. The £3m provision covers the first year of a three year programme.

Profits from the fine chemicals division, which includes Castleford and the Irish pharmaceuticals intermediates business bought in July 1992, fell £2.4m to £12.6m after using £1m of pre-acquisition provisions. Both operations have suffered accidents in the last 18 months which cost a net £400,000 after insurance claims. As a result the group's insurance premiums are expected to rise from £4.5m to more than £6m this year.

The protection and coatings division turned in operating profits of £11.9m (£9.9m) but performance products saw profits down £1.1m to £7.9m.

Group sales rose to £368.3m (£342.5m) with underlying growth of just 2 per cent.

Earnings per share slipped to 10p (10.5p) but dividends are held at 8p with a recommended final of 5.15p.

After heavy capital investment of £35.2m (£34.4m) gearing rose to 51.3 per cent at the period end (35.5 per cent) but capital expenditure will fall by £10m this year. Hickson has a £40m convertible capital bond which is redeemable from the end of the year cutting the interest charge by £2.5m. The group has sufficient facilities to redeem the bonds out of debt.

● COMMENT

The new team at Hickson has had a very difficult time over the last 18 months, with two accidents, tough trading conditions and poor performances from recent acquisitions. Cash has continued to flow out of the business leaving the balance sheet stretched. And the problems of the fine chemicals division have been aggravated by increased competition from India and China. Assuming profits of about £26m this year the shares are on a multiple of more than 17 which looks high enough for now.

Aerostructures Hamble to join market with £90m tag

By Tim Burt

Aerostructures Hamble Holdings, the former British Aerospace aircraft components subsidiary, yesterday announced plans for a stock market flotation valuing the company at up to £90m.

NM Rothschild, which is advising the Hampshire-based group, said funds raised by the float would be used to finance future capital expenditure and repay borrowings incurred in its £47.6m management buy-out from BAe.

Although the company has secured some lucrative orders since the 1992 buy-out, its ability to win further large contracts is understood to require a substantial capital injection.

Mr Andy Barr, chief executive, said resources had been drained by recent work on components for the Boeing 737-700, the US aircraft maker's new short-haul model. "It has soaked up a fair bit of capital. The flotation would help us with other orders which we are confident of winning," he said.

Despite those prospects, the company still depends heavily on BAe, for which it manufactures Hawk and Harrier fuselages as well as components for the Avro 146. That dependence, however, declined from 92 per cent of turnover in 1992 to less than 80 per cent last year.

Mr Barr, a former Rover Group managing director, said new customers – including Vought and Northrop – had been attracted by improved efficiency.

Operating margins, meanwhile, have increased following the introduction of Japanese-style manufacturing practices by managers recruited mainly from Rover.

Those practices paid off last year with pre-tax profits of £4.7m, compared with £1.7m in the eight months following the April 1992 buy-out.

The improved profits were achieved on lower turnover of £70.44m against a pro-forma 1992 total of £71.3m.

Lord King, Aerostructures' chairman, admitted trading was difficult, but said profits had risen year on year, and "the group was determined to deliver further improvements".

Rotork at £13m on back of new product

By David Blackwell

Good sales of a new design of valve control helped Rotork lift 1993 pre-tax profits from £10.5m to a record £12.9m.

The 23 per cent improvement was achieved on turnover ahead from £57.1m to £70.7m.

Mr Tom Eassie, chief executive, said the company had been encouraged by the speed with which the new IQ valve actuator had been accepted by customers around the world in a conservative market place.

Rotork's main business is designing, assembling and selling electric mechanisms to open and close valves. The IQ control is operated through an infrared system, so it can remain sealed in hostile climates.

Customers included every valve manufacturer in the world, Mr Eassie said. New orders last year included controls for a large oil metering system in central Siberia, and for one of the biggest water treatment plants in China.

During the year Rotork spent £3.3m on strategic acquisitions, buying its Venezuelan agent and raising its stake in its Indian agent. It also acquired the 75 per cent it did not own of Exeeco, which makes gearboxes for electric valve controls. The acquisitions accounted for £2.98m of total turnover.

The instruments division, with turnover of £6m, benefited from an increase in orders for emergency shutdown systems. The analysis division made an operating loss on sales of £3m to £4m.

Net cash at the year end was £11.7m (£14.5m).

Earnings per share rose from 7.56p to 9.38p. A final dividend of 2.5p is proposed, taking the total for the year to 4.25p (3.72p).

Wainhomes offer subscribed 1.3 times

The placing and offer for sale by Wainhomes, the Chester-based housebuilder, to raise £30.8m was subscribed 1.3 times when the issue was completed late on Monday, writes Andrew Taylor.

The basis for allocation is 100 per cent for those applying up to 1,000 shares; 70 per cent for 1,001 to 4,000 shares; 60 per cent for 4,001 to 10,000 shares and 50 per cent for 10,001 to 200,000 shares. Those applying for more than 200,000 shares are to receive approximately 48 per cent of their applications.

The issue was priced at 170p a share. Dealings are expected to start today.

Macfarlane shows 25% improvement to £12.7m

By David Blackwell

Macfarlane Group (Clansman), the Glasgow-based packaging company, boosted annual profits by 25 per cent on the back of an 11 per cent rise in turnover.

Pre-tax profits for the year to end-December rose from £10.2m to £12.7m on turnover of £96.7m (£87m).

Lord Macfarlane of Bearsden, chairman, said that all divisions of the company had benefited from a gentle upturn in the UK economy. The group had increased the numbers employed from 1,500 to 1,600.

Packaging accounts for 70 per cent of turnover and 75 per cent of the workforce. The group runs two other divisions – plastic moulding and development, which includes the group's sticky label and furniture business.

A&W Fullarton, the largest manufacturing company in the packaging division, is investing in additional storage facilities in order to cope with increased demand.

In plastic mouldings, ACW of Aberdeen increased its capacity and started to produce a new range of packaging for the medical sector.

Earnings per share emerged at 11.25p (8.8p), and a final dividend 2.4p takes the total for the year to 3.84p (3.186p). In the past four years the dividend has risen by some 57 per cent.

The group ended the year with net cash of £19m, up from £11m. Lord Macfarlane said further small acquisitions were expected this year, which together with planned organic growth would use up much of the cash.

Provisions leave Bardon with a deficit of £47.9m

By Andrew Taylor, Construction Correspondent

Bardon Group, the UK and US aggregates group, incurred a 1993 pre-tax loss of £47.9m after writing down the value of its marine dredging business by £60m.

It is the second time in two years that the group has made large losses following substantial write-downs. In 1992 Bardon ran up a pre-tax deficit of £40.3m after provisions of £58.5m.

The latest write-down was made against Civil and Marine, which sells marine dredged aggregates in the UK and continental Europe and which Bardon was attempting to sell to reduce further its large borrowings.

Mr Peter Tom, chief executive, said yesterday that negotiations had been terminated, adding that it was not in shareholders' interests to sell the business while continental European construction markets – accounting for 40 per cent of sales – were in recession.

Mr Tom was more optimistic about UK and US markets where volume sales and prices of aggregates had improved recently. As a result, he said: "1994 promises to be an appreciably better year."

Group turnover for 1993 increased from £336m to £351m. However, following disposals of profitable businesses and reflecting continued pressure on margins, operating profits before exceptional provisions fell from £32.7m to £28.8m.

Losses per share worked through at 12.5p (12.4p). Adjusted for the exceptional items, there were earnings of 1.1p (2.8p). A maintained final dividend of 1.2p makes a same-again 2p total.

Following disposals and a £72m rights issue net debt fell from £307m to £233m, representing a reduction in gearing from 89 per cent to 66 per cent.

Operating profits in the UK, excluding discontinued operations, fell from £15.1m to £11.5m with sales volume and prices remaining generally flat last year while costs had increased.

On the same basis, US profits increased from £12.3m to £16.5m reflecting increased construction activity in the north eastern states.

● COMMENT

Bardon would be a good business if it was not for the debts. The company is well placed to take advantage of the construction recovery on both sides of the Atlantic with volumes and margins likely to move further ahead this year. The housing recovery and an upsurge in road orders in the UK since the autumn should underpin domestic sales and earnings this year. The following year may be more difficult with the government expected shortly to announce large cuts in the road programme. Pre-tax profits could reach £22m this year putting the company on a prospective p/e of 22. Existing shareholders should hold but Bardon looks like it still needs a sale to get the debt down.

Proudfoot runs up deficit of £11m and seeks £9.6m

By David Blackwell

Proudfoot, the management consultancy chaired by Lord Stevens and which has been extensively restructured, yesterday announced pre-tax losses of £10.9m for 1993 and a rights issue to raise £9.6m.

The pre-tax deficit compares with a previous profit of £24.5m. It was struck after taking an exceptional charge of £20.2m on the closure last April of its operations in Sweden and Norway. The charge is made up of £2.6m of provisions, £15.7m of goodwill written off and trading losses of £1.9m.

Profit from continuing operations after interest and before tax was £9.3m, down from a previous £30.8m. This was struck on turnover from continuing operations of £140.7m, 11 per cent down from £158.6m.

Mr John Prosser, chief executive, said yesterday that the restructuring over the past 12 months had reduced the staff from 1,400 to less than 900. The group was now better focused on its core markets, and had been structured to fit in with the revenue levels achieved in the last half of the year.

Operating profits for the second half were £9.5m, compared with £6.3m in the first half, and margins improved from 8 per cent in the first half to 15 per cent in the second.

The rights issue would complete the restructuring and strengthen the capital base, Mr Prosser said. The balance sheet shows negative shareholders' funds of £23.9m.

As at February 28 the group had net cash of £5.4m, compared with £14.3m at the end of the year.

The rights issue, underwritten by Samuel Montagu, is on a 2-for-7 basis at 60p. Yesterday the shares closed 3p higher at 71p.

Losses per share emerged at 25p (earnings 17.5p). A final dividend of 1.5p is proposed, making a total for the year of 3.5p (12p), in line with the company policy of paying out 40 per cent of earnings per share from continuing operations.

Lack of exceptionals and growth in crystal side behind turnround

Waterford Wedgwood at I£10m

By Tim Coone in Dublin

The sparkle has returned to Waterford Wedgwood, the luxury ceramics and crystal manufacturer, which after six years of losses has reported a I£10.1m (£9.7m) pre-tax profit for 1993.

Pre-tax losses of I£17m for 1992 included an exceptional charge of I£18.4m for restructuring costs and losses on property disposals.

Turnover rose by 17 per cent to I£319m and operating profits improved by 80 per cent to I£16.5m. Year-end gearing dropped from 54 per cent to 41 per cent.

The main improvement came from the crystal division where operating profits grew from I£500,000 to I£7.8m, on turnover up 34 per cent to I£102m. According to Mr Paddy Galvin, chief executive of the division, restructuring at its Irish plants, the introduction of 250 new products in the past two years, better market conditions and improved marketing have all contributed to the turnround.

"We will not be satisfied though until we are achieving margins of at least 15 per cent on sales," he said.

Outsourced products in its middle-market Marquis range of stemware, introduced in 1991, now accounted for 12 per cent of turnover he said.

He added that margins on products from the Irish plants continued to lag behind outsourced products, but those were improving as a result of the rationalisation measures and more flexible working practices.

Operating profits at the Wedgwood ceramics division edged up to I£10.7m (I£10.5m) on turnover up 10 per cent to I£193m. Mr Kneale Ashwell, chief executive of Wedgwood, said recession in the Japanese market had been the main cause of tighter margins.

The company's currency hedging policy has meant that the full benefits of the devaluations of sterling and the punt in 1992 and 1993 respectively, will not be felt until this year.

Earnings per share were 1.27p (2.69p losses) and there is no dividend.

● COMMENT

The prolonged and painful restructuring appears to have finally paid off, with the result that management and unions are now working together and are better attuned to what the luxury products market is demanding in the 1990s. A carry-over of tax losses for the next three to five years and upturn in the group's main overseas markets point to a strong recovery in earnings. Pre-tax profits of I£23m and an eps of 2.5p look achievable this year giving a prospective 1994 p/e of 21. No basement bargains here for the moment, but as earnings look set to outpace other Irish industrials in the medium term, the current share price is not excessive.

Lloyd Thompson rises 17%

By Richard Lapper

Tough trading conditions in the London insurance market held back profits growth at Lloyd Thompson, the highly rated insurance broker.

Pre-tax profits for the six months to December 31 amounted to £9.6m, an increase of 17 per cent over the corresponding period of 1992. The interim dividend was increased by 20 per cent to 2.4p.

Brokerage income rose by 3 per cent to £20.2m. But all the increase was due to the strength of the US dollar – Lloyd Thompson achieved an average exchange rate of $1.57 against $1.71 last year – and on an underlying basis brokerage volume was down by 5 per cent.

Reinsurance income fell by 14 per cent to £5.8m, compared with £6.8m last year. The decline was partially offset by increases in marine (up by 11 per cent) and non-marine business (up 12 per cent).

Investment income increased by 10 per cent to £3.5m. Expenses were reduced by 4 per cent to £14.1m "by means of a continuing review of costs and the search for more efficient methods of working."

Staff numbers were reduced by 4 per cent over the corresponding period last year.

British Bio seeks £93.6m to fund drugs development

By Daniel Green

In the second cash call in two days from the bustling biotechnology sector, British Bio-technology yesterday announced a rights issue of ordinary shares and warrants intended to raise £93.6m over the next two years.

The rights issue is equivalent to a 1-for-3 issue at 400p a share and ¾ of a warrant on the basis of one unit, comprising four ordinary shares and three warrants, for every 12 shares held. It should raise an initial £46m net of expenses.

The warrants are exercisable at 525p at any time between December 11 1995 and January 31 1996. If exercised in full, they will raise £47.6m.

The shares rose 5p to 470p.

The cash-raising exercise comes 12 days after the first clinical trials of Batimastat, an anti-cancer drug, indicating that it worked well.

Mr James Noble, finance director, acknowledged that the cash call was opportunistic but added that this was a characteristic of the sector. Biotech companies spend many years in research and development before a drug comes to market and must generate cash from markets rather than sales.

Further clinical trial results from other drugs are due later this year. The summer should see data on Aids and pancreas disease treatments.

He said that the company needed the £93.6m to take it through the development phases to drug launches.

Four of the directors intend to take up their rights and the others will sell some of the rights and buy the rest with the proceeds.

The units will be dealt nil paid from April 15 to May 9 when they will be split into shares and warrants for fully paid trading.

● COMMENT

The rights issue from British Bio-technology is not like that on Monday from Proteus International. British Bio-tech moved more quickly after the publication of important clinical trial data. It has already signed deals with blue chip research-driven pharmaceuticals companies such as Glaxo, and it has a solid following among City analysts. Once Batimastat enters the next stage of clinical development later this year, a risk-adjusted net present valuation of the company comes out at about £700m. That is the equivalent of more than £10 a share, and makes the rights issue look a bargain for the risk-minded investor.

Norwich Union recovers with £131m

By Richard Lapper

Norwich Union, one of the largest mutual insurers, yesterday reported a return to profitability in its general insurance operations, providing further evidence of recovery in the sector after three years of poor results.

The group also indicated that its rates for both motor and home insurance had fallen as claims experience in both sectors has improved.

General insurance profits for the year to end December 1993 amounted to £131m before tax (losses of £23.4m). Gross premium income increased to £1.72bn (£1.7bn) but net claims fell to £1.07bn (£1.2bn).

With commission and expenses falling to £375m (£405m), the company reduced its underwriting losses to £63.4m (£167m). Overall investment income rose to £207m (£194m).

Mr Allan Bridgewater, chief executive, said the reduction in claims had allowed Norwich Union to reduce its premium rate for both home and motor insurance.

Claims following thefts from cars fell by a third in 1993 to £54m. On average, rates for comprehensive motor insurance have fallen by 12 per cent, while rates for household contents policies have dropped by 10 per cent. Mr Bridgewater stressed that part of the decline reflected the greater use by policyholders of security devices and other safety and security measures.

Premium income from life business increased to £2.75bn (£2.51bn), with new regular premium income amounting to £192m (£238m). Sales of single premiums over the year were £1.19bn (£952m).

The group has also made rapid progress in the health insurance market, which it entered in 1991. Last year premium income increased by 60 per cent to £105m and profits were recorded in the fourth quarter. Norwich Union now has market share of about 8 per cent and more than half a million customers.

Threat to Heron interest meeting

By Maggie Urry

A Heron International bondholder is threatening a legal challenge to the meetings being held tomorrow to approve a delay in interest payments. Heron, which completed a £1.4bn refinancing last September, has hit problems meeting interest payments.

Mr Gary Klesch, a dealer in distressed debt, has written to Law Debenture Corporation, the trustee for the bonds, demanding a separate meeting for those holders of the 7¼ per cent bonds which are also lenders to Heron Corporation, a subsidiary of Heron International. He claims their interests are different from investors who are only bondholders.

Last night Law Debenture said it would be taking advice on the question today.

However, an expert said that Mr Klesch's demand for "separate class meetings" was questionable since bondholders form one, indivisible class. As they are bearer bonds, the trustee is not entitled to know the beneficial owners behind the bonds.

Harland and Wolff cuts loss but disappointed with result

By Our Belfast Correspondent

Losses at Harland and Wolff Holdings, the Belfast shipbuilding company, were cut from £10.7m to £5.65m pre-tax for the year to end-December.

Mr Fred Olsen, the Norwegian shipowner who is Harland's main shareholder and company chairman, described the results as "disappointing".

The company, which was completely reorganised into self-contained business divisions after privatisation in 1989, said the 1993 deficit included a charge of £4.1m for foreseeable losses on contracts which were in hand at the year end.

With the exception of the holding company, Harland and Wolff Technical Services and the wholly-owned Trassey Shipping, operations in all companies resulted in losses.

Harland executives said they were scouring the world for new business as the order book dwindled.

Mr Per Neilsen, chief executive, said that during 1993 more than 80 per cent of all operating time in the main shipbuilding company was spent on work on two ships being built to a new Harland and Wolff design, and all development costs were charged to the profit and loss account as incurred.

He added: "Furthermore several new processes were implemented, some of which need further refining in 1994 having failed as yet to meet expectations.

"As a result, total productivity did not improve to the extent expected, which has increased pressure on the company to reduce costs more speedily in order to counter-measure the fall in intervention aid and the declining prices for ships since 1991."

With short term demand weak and little scope for optimism this year Mr Neilsen warned of the need to improve productivity rapidly.

Croda advances strongly

By David Wighton

Shares in Croda International fell 24p to 352p yesterday after the speciality chemicals group reported pre-tax profits up 29 per cent to £38.5m in 1993 before a £10.4m gain on the recent sale of its inks businesses.

Mr Michael Valentine, chairman, described it as a "very good year" with record profits.

Profits topped the £36.4m achieved in 1990 with earnings per share also at a peak of 20.1p, up 31 per cent, before the exceptional. However, the cut in the dividend in 1991 has not been fully restored. It rises by 8.4 per cent to 8.4p, with a final of 5.45p. In 1990 the pay-out was 11p.

The main chemicals business, whose products are chiefly based on natural oils, continued to grow strongly with operating profits up 19 per cent to £36.8m on turnover 13 per cent higher at £271m.

Exports rose by almost a fifth helped by the fall in sterling, with good sales into the difficult personal care market in Germany.

Group turnover rose 14 per cent to £415m with growth of about 6 per cent excluding exchange rate benefits and acquisitions.

Profits from coatings rose by £1m to £5m, helped by the restructuring of the UK paint business, and cosmetics and toiletries recovered to £1.7m (£500,000) having been hit by weak European consumer demand in 1992.

The inks and graphics supplies business, which Croda sold to Manders for £26.7m in January, made £2.5m (£2.1m), with the proceeds leavings Croda with gearing of 25 per cent.

Mr Keith Hopkins, chief executive, said the current year had started well with "very strong" sales in Italy and France. "There has been a certain amount of restocking by customers but it may indicate the start of an underlying recovery."

● COMMENT

The market reaction might appear harsh given the strength of Croda's recovery. But the shares have had a very strong run and the company threw current year forecasts into confusion by warning that there may not be a repeat of last year's £2.9m pension credit in the UK. Analysts were also concerned about the continued impact on margins of the rise in the soya bean oil price. But these are minor issues for a company which looks well-placed with its portfolio of natural products, reasonable exposure to the fast-growing east Asian markets and a healthy balance sheet. On forecasts of about £40m for the current year the shares are on a multiple of less than 17 which looks well-deserved.

Counting the true cost of aircraft leasing deals

Robert Peston examines the methods employed by British Aerospace to sustain its aviation business

Buried deep in British Aerospace's accounts, published yesterday, is a note which could be as significant to the future prosperity of the UK's leading defence and aviation business as the *£800m it has raised recently* from the sale of its Rover carmaking subsidiary to BMW.

BAe has disclosed for the first time that it has obligations under leasing arrangements totalling £2.9bn, compared with income that it expects to receive on subleases of £1.8bn – and only an undisclosed part of that sublease income is contractually *committed.*

What this shows is the substantial financial risks which it has been taking over the past two decades in order to sustain its civil aircraft manufacturing operations. In large part because of this leasing exposure, the company came perilously near to collapse over the past two years.

As Mr Richard Lapthorne, its *finance director, said:* "We got very close. Writing off a billion [as the company did in 1992, with a third of the losses stemming from aircraft leases] and not recognising the need for change would have bankrupted the company."

In the past three years, its commercial aircraft division has lost £1.79bn in aggregate, including exceptional reorgani*sation costs and provisions* against losses on the leases, but excluding tax and interest payments.

Those losses are many times greater than the modest aggregated profits made by the division in the boom years of the 1980s. Provisions made in the past two years to cover aircraft lease losses total some £600m.

The company had implemented a text book recovery process, said Mr Lapthorne. The balance sheet was strengthened by the Rover disposal proceeds and last year's sweeping reorganisation of banking arrangements.

This has given BAe the confidence to change its accounting procedures to give a more accurate picture of the leasing risks. The new balance sheet presentation shows that the main buyers of BAe's commercial aircraft have not been airlines, despite what common sense would suggest, but have in fact been banks and other *financial institutions.*

These banks purchased the aeroplanes and leased them back to British Aerospace under agreements lasting between 15 and 20 years, depending on the type of aircraft. BAe then rented them on sub-leases of between three and five years to airlines. It has therefore been exposed to the risk of substantial losses if *these short-term* leases were not renewed.

According to Mr Lapthorne, the appropriate analogy for BAe's civil aircraft business is not a normal manufacturing operation but, rather, property development: "You don't sell airplanes . . . to airlines," he said. "You build an airplane speculatively and then sell it to the bank. You then find an air*line as a tenant.*"

Mr Lapthorne said that all aircraft manufacturers engaged in this kind of financial engineering. In the early 1980s, when air travel was a boom industry and there was widespread inflation, each time a sub-lease expired it was replaced with another at higher rates.

The Avro 146 regional jet: more than half of some 200 sold are subject to lease agreements

However just like property developers, when recession hit the airline industry after the 1991 Gulf War, the aircraft lessors were hit by huge losses as some airlines ran into serious difficulties and were unable to make lease payments, or others simply chose not to renew leasing arrangements as they fell due.

The most prominent victim was GPA, the specialist leasing business, which had to be *refinanced* last year. However, it has emerged from BAe's accounts that its leasing exposure is enough to engender vertigo in the most phlegmatic finance director. Mr Lapthorne said that containing the risks figured among his top priorities within days of joining the company in July 1992.

BAe has sold more than 200 series 146 regional jets since launch just over a decade ago. Of these, it is exposed to lease payments on half. In respect of 350 turboprop aircraft sales it has continuing financial exposure to 75 per cent.

It is committed to make payments to banks and other financial institutions of £1.8bn in respect of head leases it has signed. More than £1bn of these payments are contracted to be made in more than five years, after most of the sub-leases have expired.

There is a second category of exposure for BAe. Even when it sold aircraft directly to airlines rather than banks, it often provided guarantees on leases which the airlines themselves took out with financial institutions.

Thus BAe has "third party head lease and other recourse costs" of £1bn. In total therefore, its has gross head lease obligations of £2.85bn, or about three times the value of its shareholders' funds.

Mr Lapthorne said that its total lease obligations are greater still, taking account of its share of its exposure to the head lease obligations of its associated company, Airbus Industrie.

Some of its lease obligations are covered by income on subleases to airlines. It said that it expects sub-lease income to total £1.76bn. However, Mr Lapthorne said that this income is not all contractually committed. It is a combination of both committed and expected lease income, estimated on the basis of precedent.

"It's calculated like an insurance company calculates risk," he said. "It's a judgment, but our model and all the thinking behind it has been thoroughly audited."

Nonetheless, there is a shortfall of £1bn between this estimate of what it expects to receive and what it has to pay out on head leases, although some of the gap is covered by its £230m estimate of the disposal value of aircraft after they revert to it.

BAe thus calculates its net risk of uncovered payments on head leases at £866m. Those payments will be made over many years, and BAe estimates that their present value – taking account of inflation – is £653m in today's money. It has therefore made provisions to cover losses of this magnitude, including an addition of £250m in respect of the turboprop aircraft made in the 1993 results.

Its financial performance should only suffer further damage from the lease exposure if its estimates of sub-lease renewals and of the residual sale value of aircraft are too optimistic. However, Mr Lapthorne is confident that BAe is now accounting for its leasing exposure more prudently than any aircraft company in the world.

He also says that disclosing the implicit leasing costs of selling aircraft, which was done within the company last year, has already had an important effect on corporate culture: "In 1993, for the first time in the company's history, BAe turned down aircraft sales."

If precedent is any guide, shareholders must hope that the company fails to make a few more sales.

Ulster TV plans move into cable

By Raymond Snoddy

Ulster Television is planning to apply for a licence to cable Belfast and its surrounding area 10 years after the ITV company first became interested in cable television.

Then UTV was in a consortium that included British Telecom and STC but nothing came of the venture.

Mr Desmond Smyth, chief executive, said yesterday he believed the time was now right for cable and the company was in preliminary talks with Mercury Communications.

The Independent Television Commission is expected to advertise a local delivery licence (cable) for Belfast later this year.

Mr Smyth said he was convinced that investing in a cable and telephony consortium was a far better investment than taking over another small ITV company.

He was speaking as the company announced a record pretax profit of £5.07m for 1993, its first year of the new ITV licences. The figure compared with £4.18m last time.

Mr John McGuckian, chairman, described the result as outstanding although the figure was made up of operating profit of £3.47m (£2.85m) and investment income of £1.6m (£1.33m).

Direct comparison is difficult, however, because of the changes, including the cash bid of £1.03m a year for the licence and a new basis payment for network programmes.

Turnover was lower at £27.9m (£28.8m).

Earnings per share were 31.78p *(24.2p) and a higher pro*posed final dividend of 8.75p (5.75p) making an increased total for the year up from 10p to 15p.

Mr McGuckian said that in the first quarter of this year the share of ITV advertising has continued to rise although it was too early to say whether this would be sustained throughout the year.

The shares rose 6p on the day to close at 667p.

Monarch Resources plans to raise $30m

By Kenneth Gooding, Mining Correspondent

Fed up with London investors' lack of interest in smaller mining companies and the fall in research coverage of the sector, Monarch Resources is to raise $30m (£20.5m), principally from Canadian investors, so that it can apply to be listed on the Toronto Stock Exchange.

Monarch's shares reacted favourably to this news yesterday and rose from 251p to 262p.

The company, which has gold mining and exploration operations in Venezuela, intends to keep its London Stock Exchange quotation "for the foreseeable future".

Present shareholders, of which about 70 per cent of the 550 holders are based in the UK, will be able to take part in the cash-raising exercise via an open offer for up to £7m.

Monarch also reported substantially reduced losses before tax, down from $4.72m to $2.81m for the year to the end of December. There was an attributable loss of $2.8m for losses of 10 cents a share, compared with $4.72m or 32 cents. Turnover was $7.37m, against $6.97m.

Mr Michael Beckett, chairman, said he wanted Monarch listed on the Toronto exchange partly because price-earnings multiples for smaller gold mining companies were on average twice those in London, but also because London was becoming more restrictive. "Companies like ours need more flexibility," he said.

Monarch's biggest shareholder, Mr August von Finck, a German businessman, will take up the shareholder offer and suffer a "modest" dilution from his present 22.9 per cent.

Most of the new funds raised will be used to finance Monarch's exploration programmes this year and in 1995. These will be stepped up substantially, mainly at the Venezuelan concessions but also in other parts of central and south America.

Mr Beckett said the Revemin processing plant was now generating cash – there was a net $190,000 gain last year compared with a net cash loss of $1.08m – and the La Comorra mine was scheduled to start operating in June.

The offer to North American investors will be at or near the prevailing price after a preliminary prospectus is issued on about May 10. ScotiaMcLeod is leading a syndicate of underwriters to the offer.

Littlewoods 74% ahead at £117m and will stay private

By Neil Buckley

Littlewoods, the retailing and football pools group that is one of the UK's largest private companies, announced a 74 per cent increase in pre-tax profits yesterday, and insisted that it would remain private.

Profits before tax for the year to December 31 increased to £117.2m. The £67.3m for 1992 has been restated in accordance with FRS 3 to take into account exceptional costs of £29.7m for the group's withdrawal from the food hall business – which was taken over by Iceland – and from its retail finance businesses.

There were net exceptional costs of £3.4m for 1993, with £10.9m rationalisation costs offset by a £7.5m profit on the sale of Littlewoods' Christmas hampers business.

Excluding exceptionals, underlying profits grew by 24 per cent from £97m to £120.6m.

The death of Sir John Moores, the group's founder, last September had led to speculation that the group might be floated, with rumours that some of the 32 shareholder members of the Moores family were keen to sell their stakes.

However, Mr Leonard van Geest, chairman, insisted there were no plans for flotation.

"We have no need to go public," he said. "The family members are all very committed to the business, and maintain a strong interest in it."

He added that not having access to equity finance was not a problem as the group was able to borrow at good rates. Littlewoods moved from net borrowings of £6.1m at the beginning of 1993 to net cash of £58.9m at the year-end.

Sales increased by 2.5 per cent from £2.71bn to £2.78bn, of which the retail businesses contributed £1.96bn (£1.9bn).

Sales in Littlewoods chain stores declined from £696m to £666m, mainly as a result of disruption during the conversion of food halls to the Iceland format. Operating profits from the continuing business increased from £33.2m to £37.8m.

In the home shopping division, sales rose from £978m to £1.04bn, and profits from £56.3m to £68.6m.

The Index catalogue shops increased sales to £251m (£228m). Losses were reduced to £7.5m (£9.1m). Profits from the group's football pools side grew to £23.6m (£21.6m).

NEWS DIGEST

Estates & General cuts loss

Estates & General, property developer and investor, cut its pre-tax loss for the year to December 31 from £26.4m to £4.51m. The figure was struck after provisions of £2.21m against UK trading properties and a development in Majorca, and compares with provisions of £13.3m last time.

Group turnover was £9.45m (£9.19m) and overheads were cut by 33 per cent to £1.68m.

The company's banking facilities have been extended until the end of June 1995.

"This has been a year in which we have made encouraging progress towards restoring the financial stability of the company," said Mr Peter Prowting, chairman. He is hoping to achieve "a balance between rental income and funding costs" in 1995, helped by new lettings and interest rate changes.

Losses per ordinary share were reduced to 21.1p against 126.7p.

William Baird

William Baird, the textiles group, has sold the UK businesses of Darchem's building services division, a provider of relocatable accommodation units, to a consortium backed by Murray Johnston and NatWest Ventures, for about £7.5m in cash.

Some £5.75m was paid on completion. A second payment will be made following a completion balance sheet date with the final £1.1m payment deferred for one year.

Baird is also selling certain assets of the Dalfratex and Scotswood businesses to Cape for about £700,000 cash.

Ropner

Ropner, the shipping, engineering and property investment group, *is proposing to give* equal voting rights to its A non-voting ordinary shareholders. As compensation existing ordinary holders will receive additional shares on a 1-for-10 basis.

Both classes of share rose yesterday, the ordinary by 10p to 162p and the As by 9p to 158p.

Pre-tax profits for the year to end-December rose from £3.82m to £3.99m. Acquisitions added £3.65m *to group turn*over of £22.04m (£15.5m) and £373,000 to operating profits.

Investment income fell to £637,000 (£1.69m) while interest costs rose to £466,000 (£152,000).

Earnings were 11.6p (11p) and a final dividend of 4.75p makes a same-again 8.25p total.

Servomex

Restructuring costs of £568,000 left Servomex, the maker of gas analysis and monitoring equipment, with 1993 pre-tax profits of £1.52m, against £2.11m.

Earnings per share came out at 9.4p (14.1p) but the final proposed dividend is raised to 4.5p for a total of 6.4p (5.9p) reflecting the company's confidence in the future following *its cost cutting.*

Turnover improved by 15 per cent to £22.7m (£19.7m). However volume growth was only 3 per cent with the rest being made up of price rises and exchange rate effects.

Net debt rose slightly to £1.77m at the year end, against £1.54m, for gearing of 25 per cent (23 per cent). The company said that an inventory reduction programme had released £724,000 towards the *cost of capital investment.*

OIS Intl Inspection

OIS International Inspection, which provides technical inspection services to the construction, petrochemical and power generation industries, reported pre-tax profits of £2.21m on turnover of £46.7m for 1993.

The company came to the market at the end of 1992 and there are no directly comparable figures. However, the businesses which became wholly owned subsidiaries at the time of flotation made pre-tax profits of £1.74m on turnover of £46.8m in 1992.

Earnings per share were 5.4p basic and 5.1p fully diluted. A final dividend of 1.4p is proposed *for a total of 2.1p.*

Scottish Asian Inv

The Scottish Asian Investment Company had a fully diluted net asset value of 354.9p at January 31 1994 against 170.6p a year earlier and 213p at the July 31 year end.

There was an attributable loss of £76,000 (£90,000) for the half year resulting in losses per share of 0.43p (0.52p).

FW Thorpe

Pre-tax profits more than doubled, from £402,000 to £869,000, at FW Thorpe, the lighting equipment maker, in the half year to December 31.

On turnover ahead from £7.54m to £9.5m operating profits on continuing operations were £786,000 (£279,000). Inter*est receivable fell to £83,000* (£123,000).

Earnings per share rose to 4.7p (2.11p) and the interim dividend is lifted from 0.8p to 1p.

Thomas Jourdan

Thomas Jourdan, the maker and marketer of consumer goods, returned pre-tax profits of £254,000 for 1993, a swing *from restated losses of £1.12m* the previous year.

Turnover totalled £22.91m (£22.7m). All subsidiaries traded profitably, with the exception of Woodstock Furniture which is being closed along with Corby's French distribution company.

A proposed final dividend of 0.5p makes a 1p (0.75p) total. Earnings emerged at 1.29p (losses 6.27p) or 3.45p (losses 0.13p)adjusted for the loss *attributable to discontinued* operations.

Henderson Highland

Net asset value per share at Henderson Highland Trust improved from 108.1p to 131.89p over the 12 months to February 28.

Net revenue for the period came out at £1.52m (£1.38m) for *earnings per share of 5.82p* (5.3p). An unchanged final dividend of 1.4p is recommended for a maintained total of 5.6p.

Coal Investments

Shares in Coal Investments, formerly Geevor, rose 8p to 84p on their return to the market yesterday following a seven week suspension.

The shares have been one of the market's most outstanding performers since Mr Malcolm Edwards, former British Coal commercial director, took over as chairman last September. They were relisted last October at 10p. Last month's suspension was to allow the company to undertake a programme to raise £11.5m, partly through a rights issue.

Health care changes help Nestor-BNA

The changing climate of health care in the UK helped Nestor-BNA, the nursing agency, personnel and medical services group, to achieve pretax profits of £4.52m for 1993.

The £1.71m figure for 1992 has been restated in accordance with FRS 3 to include an *exceptional £2.53m write-off.*

Turnover was 15 per cent ahead at £111m (£96.3m).

Operating profits rose to £6.14m (£5.54m), with 88 per cent coming from health care, 67 per cent in the UK and 21 per cent in the US.

Earnings per share rose to 4.46p (0.91p) and a same-again final of 2p maintains the total dividend at 3.15p.

Morgan Grenfell Latin trust raises £64m

Morgan Grenfell has raised £64.2m with the launch of its Latin American Companies investment trust, £53m of which came from an institutional placing.

A similar fund, the Inca trust from Edinburgh Fund Managers, raised about £30m during its placing. The result of its public offer is not yet known.

Both trusts had initially set higher targets, but Morgan Grenfell said that given market conditions during the offer period, it was very satisfied with the amount raised. The placing for a third Latin American fund, from Templeton, is still under way.

Dealings in the Morgan trust's shares and warrants are due to start tomorrow.

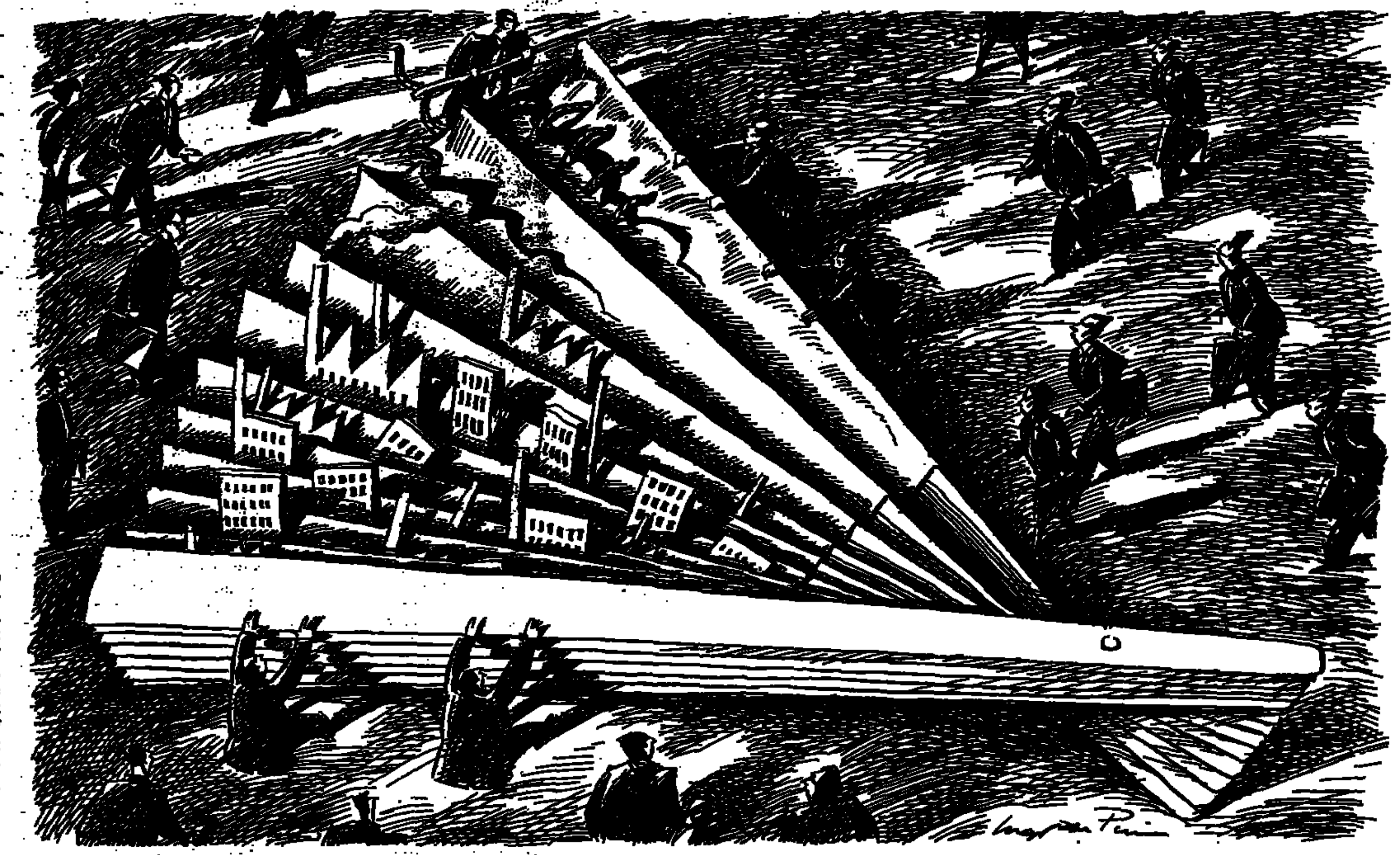
FINANCIAL TIMES SURVEY

JAPANESE FINANCIAL MARKETS

Wednesday March 30 1994

Four years of collapsing share and property prices have forced the administration to concentrate on more open and competitive financial markets. But officials, banks, their affiliates and customers are closing ranks. William Dawkins reports

Bureaucracy is forced to switch focus



The Japanese bureaucracy's guiding hand has returned to the financial markets, in an attempt to steer them through the worst recession since the second world war without hitting a crisis.

Four years of collapsing share and property prices have forced the administration to switch focus away from its previous gradual progress towards more open and competitive financial markets.

Now officials, banks, their affiliates and customers are closing ranks, despite pressure for more deregulation from Mr *Morihiro Hosokawa, prime* minister, who is eager to deflect US frustration at Japan's remaining market barriers.

The return *to old* ways *is* illustrated by a revealing meeting one morning last November, in one of the typically shabby, grey-painted rooms of Japan's finance ministry.

Officials had called in senior executives *of Japan's life insur*ance companies, among the biggest investors in the Tokyo stock market, to explain the ministry's attitude to the previ*ous day's fall in share prices* to nearly 16,000, a new low for the year.

Both sides knew that at that level, Japan's banks start to become worried *that* their capital, part of which is in equities, will begin to suffer, *posing a* danger of a credit squeeze for the hard-pressed economy. That afternoon, Nippon Life Insurance, Japan's largest insurer, bought Y10bn of shares. A day later, the market picked up slightly. Nippon Life insists that it acted purely on its own decision.

The anecdote shows that the ministry's "administrative guidance" is as effective as ever. It is encouraging financial institutions to confront the *problems caused by the finan*cial excesses of the late 1980s, yet the ministry is also doing all it can behind the scenes to prevent markets sliding out of control.

The administration's scope to intervene has been made all the stronger by the erosion of political authority, with the collapse of the Liberal Democratic Party in last summer's elections and the ensuing political upheaval. For this reason, Japan's financial markets can expect a longer and gentler adjustment than did Wall Street *after its cataclysm. in* late 1987.

Banks are accelerating the pace at which they deal with their most pressing problem: the need to write off a mountain *of bad debt. Increased* write-offs will be the main feature in an expected decline in net profits of the 11 leading city banks to Y356bn in the year *ending tomorrow, from* Y421.1bn in 1993, forecasts SG Warburg Securities in Tokyo.

Yet banks are facing up to non-performing loans only slowly by western standards. The real extent of the problem, and hence its *future* impact on the supply of credit, is hard to measure.

Officially, the 21 leading banks calculated their non-per*forming loans at Y13,700bn, at* the last count at the end of September.

Yet the definition of a bad loan, one on which no repayments have been made for six *months, is lax by the US stan*dard, under which a debt must be declared bad the moment the terms of the loan are breached. Under this tougher *US regulation, Japan's bad* debt mountain would grow to at least Y30,000bn. The difference highlights Japanese banks' traditional concern with helping big corporate customers through bad times.

To make matters worse, the lingering recession and the yen's relentless rise are adding dud industrial loans to the debts of property developers, *or companies using overvalued* property as collateral, which lay at the origin of the problem.

Worryingly, corporate bankruptcies caused by the reces*sion rose to a record 60.8 per* cent of total collapses last year, according to Teikoku Databank, a private credit bank. In January, the overall number of *company collapses climbed to* a seven-year high.

All this cyclical turmoil coincides with an underlying change in Japanese banks' basic role. "There is great change going on in the financial *system...*" says Mr Yasuo Noda, managing director of Dai-Ichi Kangyo Bank, Japan's largest.

"The economy of Japan was *built up over the past 40 years* by a financial system dedicated to providing cheap capital for industry. But we cannot continue in exactly the same way. There has to be a more diversi*fied formula, to cope with eco*nomic change and a more diversified client base," he explains.

The main change cited by Mr *Noda and his colleagues is an* acceleration in corporate borrowers' tendency to turn away from banks to the bond markets for funds. Bank loans have dropped over the past decade from just under 85 per cent of corporate borrowing to about 70 per cent, according to Salomon Brothers Asia. The drop will get faster as companies, under pressure to curb *costs, chase cheaper funds and* as Japan's fledgling corporate bond market develops in response, predicts Salomon.

Banks would dearly love to capture this business. Their *appetite is made all the* sharper by a decline in the underlying demand for capital, with corporate investment set to fall this year for the third year running, according to the Industrial Bank of Japan.

Yet the government has allowed banks to step into the protected securities business only gradually, under resistance from Japan's powerful stockbrokers, still suffering from the plunge in stock market prices.

The 10 trust and long-term credit banks were allowed last April *to establish securities* subsidiaries to issue, but not market, convertible and warrant bonds, and to deal in straight bonds. City banks' subsidiaries will be allowed to follow next year in what the *finance ministry says will* be an "orderly manner to avoid confusion."

Another change in old values, accelerated by the reces*sion, is the partial dismantling* of the outer fringes of Japan's *keiretsu* of relationships between diversified groupings, bound together by cross-share*holdings*.

In the past, these were seen to be an important strength of Japanese industry's competitiveness, helping to bind *together banker and corporate* client, and manufacturer and supplier.

They continue to be criticised by the US as a way of keeping foreign companies out. Yet a growing number of Japanese businesses have come to see part of their *keiretsu* links as disposable. That is why Nippon Steel announced recently that it will sell Y66bn of securities, to help reduce its operating losses, while Kobe Steel will sell Y31bn.

Yet *keiretsu* are only weakening at their outer bound*aries. The core is stronger than* ever. The big banks which are often at the heart of these rela-

Continued on Page 2

IN THIS SURVEY

- Editorial production: Phil Sanders

■ THE BANKING SYSTEM

Costly surprises possible

A big worry overhanging the Japanese economy's capacity to recover is the convalescent state of its banking system.

The finance ministry and the banks themselves have only recently admitted the seriousness of the damage inherited from the late 1980s boom in lending, much of which was to property developers or companies using overvalued land as collateral.

Now they have stepped up efforts to tackle banks' two main problems – bad debts caused by the collapse in land prices, and a fragmented, hence costly, industry structure.

Bad debts pose the most urgent immediate problem for small and large banks alike. Even on Japan's official relaxed definition of a dud loan, banks' declared bad debts are a bigger drag on the economy than were US banks' non performing assets at the depth of the US banking crisis, points out a Bank of Japan official.

Japan's top 21 banks admitted to Y13,700bn of bad debts, at the latest count, although most analysts believe the figure would be at least double if tougher western criteria were used. Disclosed bad debts currently total 2.9 per cent of gross national product, as against the 1.8 per cent of US GNP represented by their US counterparts' non-performing loans in mid-1991.

"In the end, the only way to finance this loss on the financial system is through growth," says the central bank official.

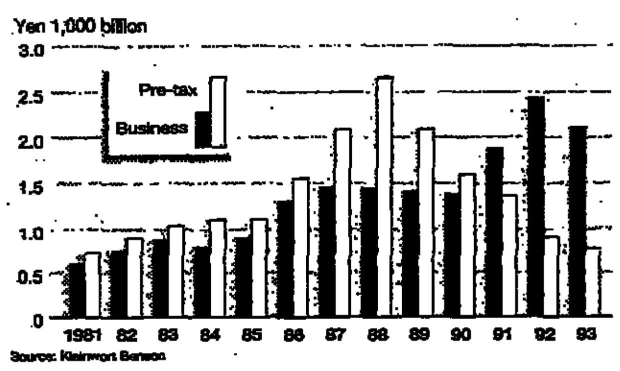
The problem is distributed unevenly through the system, challenging the finance ministry's traditional strategy of encouraging banks to perform at the same rate, the so-called "convoy system," designed to buttress public confidence.

Not surprisingly, most of the 11 large city banks, representing 30 per cent of total lending, are relatively strong, except for Hokkaido Takushoku and Sakura Bank. Breaches are also appearing in the balance sheets of the smaller trust and long-term credit banks – another 14 per cent of lending – and the sometimes weakly capitalised regional and agricultural co-operative institutions, which make up the rest.

In an attempt to clean up their balance sheets before the upturn comes, Japan's banks have broken with their previous strategy of delaying loan loss write-offs in the hope of better times.

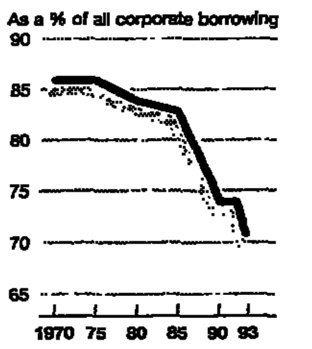
Write-offs by the top 21 doubled to an unprecedented Y1,400bn in the six months to last September and the finance ministry's banking bureau is thinking of Y3,000bn or more for the full-year ending tomorrow. That represents just over 80 per cent of *gyomu-juneki*, or core profits and is as much as the banks can afford, believes IBCA, a credit rating agency which specialises in banks.

City banks' profits



Source: Kleinwort Benson

Private bank loans



Source: Salomon Bros Asia — March figures

However, banks' new eagerness to write off unperforming assets is being blunted by the continued growth in bad loans, up by 55 per cent in the fist half of the fiscal year, according to Salomon Brothers Asia.

At this rate, finance ministry officials believe the banking system needs between three and seven years, depending on individual institutions, to write off the Y6,000bn to Y7,000bn which it estimates is needed to bring the problem under control.

This indicates that banks' profitability and capacity to lend could continue to be hampered well into the recovery. So far, demand has been weaker than the supply of credit.

The public sector has also helped, by doing some of the banks' job on their behalf. New lending by public sector institutions, mainly for housing and small businesses, overtook new private sector lending for the first time in 1992, according to the Bank of Japan, and probably did so again the following year.

Yet bank lenders are coming under growing criticism for continuing to be addicted to collateral-backed lending at a time when assets are falling in value, rather than taking a cue from US practice and lending on cash flow forecasts.


Downtown Tokyo: Bad debts pose the most urgent immediate problem for small and large banks alike
Picture: Mike Steel

The decision to get tougher on bad debts was partly helped by the finance ministry, which has to approve every write-off, from a small loan to a corner store to a giant property developer. It has processed applications faster and been less miserly than in the past in permitting banks to write off losses against tax.

The ministry also allowed banks last year to establish a mechanism to help them liquidate and realise tax deductible losses on property loans, which account for an estimated 60 per cent of the total bad debt burden. The bank-owned Co-operative Credit Purchasing Company, launched last March, buys bad loans at a discount and then tries to sell the collateral, usually Tokyo office space, in the open market.

The CCPC's main problem is that the banks are so unwilling to sell property at its real market value – down at least 50 per cent over the past three years – that it has found hardly any buyers. By the end of last month, the CCPC had raised a trifling 1.1 per cent of the Y1,522bn it had paid for loans with a face value of Y2,857bn.

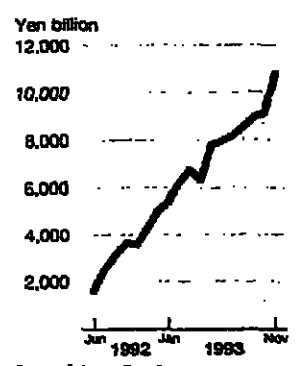
In an attempt to help banks better tackle bad debts, the finance ministry now says it will allow them to sell land collateral at auction, so as to define a real sales price on which they can declare a tax write-off. Failing a buyer, banks will be allowed to sell the collateral to an affiliate established for the purpose.

Further ahead, the banks are impatiently awaiting the results of a finance ministry panel on the possibility of packaging bad loans into marketable securities, a technique used by US banks to help them liquidate poorly performing assets. A decision is expected by mid-summer, say officials.

The finance ministry and Bank of Japan are meanwhile continuing to do their best to avoid letting a crisis develop in the system itself.

An estimated 80-100 officials from both institutions are on secondment or transfer to mainly small banks, where they are engineering rescues and ensuring that the long overdue streamlining of Japan's fragmented banking industry gets under way in an orderly manner.

Money market funds



Source: Salomon Bros Asia

A string of mergers between smaller banks and credit associations has occurred.

On the whole, the most troubled institutions are assured of rescue by the government, a parent or bigger associate, if only to prevent a rush on similar banks. Toyo Shinkin, Osaka Fumin Shinkin, Taiheiyo Bank and Hyogo Bank are among the small institutions to have been bailed out during the recession.

Bank collapses are almost unheard of. There is one exception – the government's decision last May to stage an orderly liquidation of Kamaishi Shinkin Bank, a small credit association in rural northern Japan, and to distribute its assets among three other institutions in the area.

In another break with the tradition of containing, rather than facing crises, banks themselves are taking a tougher line on customers they used to think were too big to abandon.

One indicator of this new toughness is the Long Term Credit Bank of Japan's decision last July to leave EIE International, a large property developer, to fend for itself. Another came in November when Daiwa Bank allowed Muramoto Construction, a construction group with debts of Y590bn, to file for protection from its creditors, the largest post-war financial collapse.

It is a worrying sign that a year previously, Muramoto was not even listed as a bad debt in its creditor banks' accounts – also true of several other large collapses and bail-outs. This means that despite the finance ministry's assurances that the banking system's problems are well under control, other costly surprises might be waiting to burst out.

William Dawkins

Bureaucracy is forced to switch focus

Continued from Page 1
tionships report that they are being asked to offer increasing help for their leading corporate customers.

Financially unsound companies unfortunate enough not to be linked to a friendly *keiretsu* bank soon join the queue of bankruptcies.

That was a lesson of last autumn's collapse of Muramoto Construction, the largest post-war financial failure, which had failed to cultivate sufficiently close links with Daiwa Bank, its leading lender.

Japan's biggest stockbrokers, by contrast, appear to be further into their restructuring than is the banking industry.

The big four brokers, Nomura Securities, Daiwa Securities, Nikko Securities and Yamaichi Securities, are just starting to see the benefits of the staff reductions and closures of retail outlets they made in the 1980s.

Reduced costs will be one of the two main features of an expected turnround by the big four, from a combined loss of Y60.1bn in the year to last March to a net profit of Y100bn this year, forecasts Mr Mark Faulkner, financial analyst at SG Warburg Securities.

The other feature is a pick-up in average stock market turnover, from Y250bn per day to about Y400bn over the same period; comfortably over the Y350bn at which the big four break even, he says.

However, the legions of second-tier brokers clearly need to cut costs or reduce their dependence on commission income if they are to be profitable at the market's present level.

They still need average market turnover of about Y450bn to break even, estimates Warburg's Mr Faulkner.

One of the few bright spots in Japan's otherwise unsettled financial markets is the pension fund industry. Fund management is set for strong growth for the next few decades, thanks to the fact that Japan has the world's fastest ageing population, in which the proportion of people over 65 will roughly double to 26 per cent by 2020.

Pension assets, will grow by 50 per cent from their present $1,600bn by the end of this decade, forecasts Morgan Stanley Investment Advisory.

About 94 per cent of pension fund assets are managed by the 15 main Japanese life insurance and trust companies, estimates Morgan Stanley.

Not surprisingly, foreign fund managers, as well as Japanese ones, are fighting hard to get into this tightly protected market, one of the hottest areas in the US-Japan trade dispute.

But the government has so far proved resistant to pressure to open the market to newcomers. The outcome of this dispute will be closely watched as a test of whether the government is confident enough to switch the focus back to making the financial markets more competitive.

JAPANESE FINANCIAL MARKETS III

Trading has settled back into its diffident pattern Picture: Ashley Ashwood

■ THE BROKERS

Small firms face the abyss

In a small restaurant in the maze of busy streets behind the Tokyo stock exchange, Mr Yoshihiro Emoto has been selling eels for 45 years. The slippery fish are a rare delicacy for most Japanese – a taste to be indulged only when times are good.

After four years of unparalleled austerity, in the first half of last year the restaurateur detected the first signs of renewed interest. But the recovery was short-lived and business has slowed again in the past six months.

Mr Emoto says the current market is like a high-flying aircraft that has landed with a bump, but is now taxi-ing down the runway. He expects it to stop for repairs later this year, then take off again. "It will probably take two to three years before full recovery. People just have to be patient."

Mr Emoto's auguries are confirmed by more orthodox indicators of market sentiment. None of them offers much comfort to the nervous occupants of Japan's overcrowded securities market.

Average daily trading volumes on the Tokyo stock exchange were up by 34 per cent in the first half of the current financial year, averaging more than 400m shares a day – a far cry from the billion shares a day frenzy of the bubble years, but enough to prompt widespread optimism that the long dark night of Tokyo's stock market was over. But the rally dissipated and trading has settled back into its diffident pattern in the second half.

The threat to the broking sector is transparent. The Big Four firms – Nomura, Daiwa, Yamaichi and Nikko – are sufficiently capitalised to withstand all but the most apocalyptic of trading conditions. But it is the more than 200 small and medium-sized firms – many of whom need sustained trading volumes of 400m shares a day or more simply to stay afloat – who now stare directly into the abyss.

And the chronic dearth of equity business is compounded by two other factors: the overcapacity brought about by huge investment programmes during the bubble years; and the financial deregulation that threatens brokers' very existence.

For the Big Four, last year marked a turning point. Having posted historic losses (Daiwa and Yamaichi) or minimal profits (Nikko and Nomura) in 1992-3, they all returned to healthy profits in the first half of 1993-4, buoyed by higher trading levels.

Although the slump in the second half will cut earnings, Alicia Ogawa, securities analyst at Salomon Brothers in Tokyo estimates that the four will all report profits for the full year.

Investors' continuing reluctance to revisit the scene of their losses in the past few years is forcing brokers to place more emphasis on quality. Last year, Nomura broke with Japan's tradition of coyness and became the first large broker to introduce a "buy, sell, hold" formula for equities.

But while more attention has been paid to the product, the Big Four have been slow to cut costs. Although employee numbers did fall by 9 per cent last year, most of that decline was the result of natural wastage. They may need to dig much deeper.

The Big Four have one overwhelming advantage over their smaller rivals – a diversified business. In the past few years, Japan's tiny corporate bond market has been opened up and the country's corporations have turned away from their historic dependence on bank loans for finance. In the six months to September, new bond issues were 61 per cent higher than a year earlier.

Unfortunately for the brokers, the lucrative fees for bond underwriting and distribution are the business in which they now face direct competition from the broking subsidiaries of banks established in the past year in the latest wave of financial deregulation. Although the inroads made by the banks are so far small, they will grow.

If the Big Four can claim to be past the worst, the rest of the broking sector expect the ordeal to continue. Despite aggressive cost-cutting, the selling, general and administration costs are still above operating revenues. Many of the brokers are saddled with huge investments from the years of plenty.

Kankaku Securities is a classic middle-tier company. In the late 80s it had grandiose aims of challenging the Big Four. Huge capital projects were commissioned, including – most ambitiously – a vast computer centre 30 miles from Tokyo. Last year, the computer centre was sold, unused, a monument to the hubris of the bubble years.

As the president, Mr Akihiro Ieda, says: "Most of the smaller firms have relied too heavily on equities. The key to survival is to diversify."

Most smaller firms still have more than half their business tied up in equities

The rare success stories have been those firms with a more balanced portfolio. Kokusai Securities consciously emulated the Big Four – only 31 per cent of its revenues now derive from stock commissions. The other two thirds come chiefly from bond commissions and trading income. "We are the perfect tripod", says Mr Yoshitaka Matsutani, the company's president. "A tripod cannot function unless all three legs are the same length."

Most firms were not so prescient. While stock commissions account for about one third of the Big Four's business, most smaller and medium-size firms still have more than half their business tied up in equities.

Time is running out. Last year's recurring loss at Kankaku was equivalent to nearly 4 per cent of its capital, typical of the losses companies face. And the competition from the subsidiaries of banks is slowly eroding the extra ground available.

The constant threat of the failure of smaller brokers continues to exercise the minds of the regulators at the Ministry of Finance. Most of the threatened companies are linked financially to their larger competitors or to banks. The demise of Cosmo Securities last year may provide the model for any future failures. The finance ministry, fearing systemic collapse, prevailed upon Daiwa Bank, which owned 5 per cent of Cosmos, to rescue the broker.

But with liabilities of their own, would-be rescuers are expressing their alarm to the finance ministry. As a senior executive of Nomura put it: "We understand the ministry's position, but in these difficult circumstances, we cannot do anything that is against the interests of Nomura's shareholders".

Brave words in the comfortable land of the hypothetical. They may not be repeated with such confidence, however, should the crisis come and the Big Four find themselves staring down the barrel of the finance ministry's celebrated administrative guidance.

Gerard Baker

■ THE BANKS AS BROKERS

Revolution has been orderly and cautious

On a sultry July morning last year, Mr Atsuyoshi Yatsunami took the short walk from his office at the Industrial Bank of Japan to the offices of the brand new IBJ Securities, and opened a chapter in Japanese financial history.

Mr Yatsunami is the president of the fledgling broker, one of the three subsidiaries of banks to open that day and the first to conduct securities business in Japan's domestic market.

Although he believes that the reform will in time represent a radical change in the way financial markets work, he regrets the fact that it is far from complete.

The opening up of the securities market had been legislated in April 1992, despite heated opposition from the existing 200 or so brokers, for whom life was tough enough already. It was the latest breach in the dam of tight financial regulation that has been eroded since the early 1980s.

But in typical Japanese style, the revolution has so far been orderly and cautious. The Ministry of Finance permitted three companies to start last July; IBJ Securities, and LTCB Securities, both subsidiaries of long-term credit banks, and Norinchukin Securities, a subsidiary of the agricultural bank. They were joined later in the year by subsidiaries of two trust banks – Sumitomo Trust and Mitsubishi Trust. This month the Ministry of Finance gave permission for the powerful city banks to enter the market later this year.

The business of the new securities companies is severely circumscribed. They may underwrite bonds and equities, but may only trade in straight bond markets. They are not permitted to trade in equity-related secondary markets – equities, convertible bonds or warrant bonds. Since the secondary bond market is still – despite recent deregulation there too – in the words of Mr Shigeaki Katagiri, president of LTCB Securities, "miserably small", the new brokers rely heavily on bond underwriting business.

They might have regarded that as a blessing. Equities have not been providing the established brokers with a high life of late and the banks' subsidiaries would have had a hard time eking out a living on the stock market.

But the tiny plot they have been allowed to cultivate has been a fertile one. In their first six months, IBJ SEcurities were involved in 26 domestic bond issues, 20 as a manager. They lead-managed two samurai bond issues and managed nine others. LTCB Securities were involved in 16 domestic issues and several samurai bond issues. Although these are small beer in comparison with the near-oligopolistic shares of the Big Four, they represent a gradual encroachment on the territory of the existing brokers.

The limits on the activities of the banks may seem more stifling if, as some suspect, the current buoyancy in the fixed income market proves transitory. The last year has been an exceptionally strong one for bond issues. Having increased by 60 per cent in 1992-3, the total value of new bond issues looks set to double in the financial year 1993-4, to nearly Y7,000bn. Some brokers, however, put that down to weakness in equity markets and see the pace of corporate bond issuance tailing off if equities recover.

But such a setback would probably be short-lived. There is a growing trend in Japanese markets towards direct borrowing by corporations. LTCB's Mr Katagiri says: "Currently only 20 per cent of Japanese corporate borrowing is through the bond market, compared with nearly 80 per cent in the US. We only need that proportion to rise slightly in the next few years to bring about an enormous increase in our business."

Strict fire walls are enforced by the regulators – at LTCB and IBJ Securities, the staff even wear different-coloured uniforms from their parent's employees

Strict fire walls are enforced by the regulators – at LTCB and IBJ Securities, the staff even wear different-coloured uniforms from their parent's employees. Under pressure from the established brokers, the Ministry of Finance ruled that broking subsidiaries were forbidden from lead-managing issues for companies whose main bank was the subsidiary's parent.

Despite this, the banks' primary advantage over the competition is their client relationships. At IBJ, the entire staff of the subsidiary was seconded from the parent bank. Last month the fruits of the links with bank customers were realised when IBJ revealed that it was, for the first time, lead-managing a bond issue by Nissan; the most significant feather in its cap so far.

The arrival of the banks has stung the brokers into action. On the day the subsidiaries opened, Nomura announced a cut in its commissions, and fees are expected to fall further. Senior Nomura officials, although troubled by the competition, believe the real threat is still to come.

Nomura says that the current participants – the long-term and trust bank subsidiaries – are not a significant challenge. Their clients tend to be very large companies who already exercise considerable choice in their selection of brokers. The city banks, who arrive later this year, have clients who are smaller and much more likely to cling to the bank's skirts when venturing into the stockbroking business.

The established companies' response has been two-pronged: hold on to their existing market domination by developing ever-more-sophisticated products for their clients, and retaliate by encroaching on enemy territory. To this end the Ministry of Finance has relaxed the rules on the type of products they may offer. Some funds they sell look increasingly like bank deposits: more and more liquid and an important source of competition for bank deposits.

The new firms have little more than the narrowest of niches in the overcrowded securities business. If deregulation is pursued further, there is little doubt that they pose a severe threat to many of the middle-tier brokers, already stricken by the excesses of the bubble years. Their capital strength and strong client base will mean they can survive all but the worst vicissitudes of the market.

But the finance ministry is clearly in no hurry to complete the revolution. The new players, although pleased with their performance so far, feel that the strait-jackets they occupy are too tight. Their current business amounts to a small fraction of that of the Big Four brokers.

When the city banks join the fray, their pleas for more deregulation will become harder to resist. But until then, the banks must continue to compete on a playing field that, as one analyst says, is tilted at an angle of about 45 degrees against them.

Or, as Mr Yatsunami puts it: "We are like an aircraft with one wing. We can't really be said to be functioning properly until we acquire a second."

Gerard Baker

■ THE NON-BANKS

A good year despite bad debts

Among the casualties of the deterioration in asset prices in Japan are the country's non-banks – the group of financial companies which sprang up in the 1970s to meet market demands ignored by the banks.

But despite their bad debt problems, non-bank stocks performed well last year. The non-bank "other financial" sector rose 32.17 per cent last year, compared with 10 per cent for the broad Topix index, according to Nomura International.

Mr David Snoddy, an analyst at Jardine Fleming, says the three factors which drove share prices higher were falling interest rates, a perception that the risk profile of the sector had improved and the liberalisation of commercial paper issuance rules for non-banks, allowing some of them to raise funds more cheaply.

However, he believes that these factors have provided a relatively short-term boost and that non-banks will only continue to out-perform other sectors of the stock market if "the basic businesses of the non-banks are growth businesses."

So what are these basic businesses? In fact, the non-bank sector covers a wide range of areas: credit cards, consumer lending, loan guarantees, corporate loans and leasing – and different companies focus on different businesses, often exclusively.

Those active in consumer rather than corporate lending tend to be viewed more positively

Broadly, those active in consumer rather than corporate lending tend to be viewed more positively, partly because any pick-up in the economy is expected to show first in greater consumer spending, rather than in corporate borrowing for capital investment.

In particular, Japan's credit card business is expected to expand rapidly in the 1990s, given the relatively low base for credit card use in Japan. In 1991, the last year for which figures are available, the ratio of credit card transactions to total consumption was 7.1 per cent in Japan, compared with 17.6 per cent in the US.

"For Japan to go to only 10 per cent means an almost 50 per cent growth in the credit card business, even assuming that consumption stays flat," Mr Snoddy points out.

Among the large non-bank companies set to benefit from the expected growth of the credit card market are Daiei Finance and Credit Saison, which have extensive retail affiliations, and Nippon Shinpan, which already has a large market share and a relationship with Citibank, one of the largest US issuers.

Credit Saison, which is linked to Seibu, the country's largest retail sales group, has had an annual increase of 1m cards for the past 11 years, with an estimated 11.5m cards in circulation as of March 1994.

However, there are a number of black clouds on the horizon for the credit card companies. One threat is the rise of discount stores, most of which only accept cash. Another is competition from banks. According to Mr Snoddy, of the 203m cards in issue in 1992, 76m were issued by bank-related companies, of which the largest is JCB. In the past 10 years, the banks' share of the card market has risen from 27.6 per cent to 37.5 per cent.

Others question whether the credit card business in Japan will reach the same relative size as in the US. Some analysts argue that in a country where it is still

A pick-up in the economy is expected to show first in greater consumer spending *Picture: Ashley Ashwood*

safe to carry large sums of money in cash, and savings rates are high, there is less need for consumers to carry credit cards.

Other consumer lending businesses are less attractive. Instalment loans, for example, are widely seen as a declining business. They are being replaced in part by greater use of credit cards for financing all but the largest consumer durables. In part, this stems from the relative fall in prices of consumer durables such as televisions. Instead, lenders are concentrating on instalment loans for cars. However, the finance arms of car companies are becoming increasingly aggressive competitors in this market.

Some non-banks are retaining the guarantee part of the loan business. For example, Aplus, which used to have a monopoly on financing BMWs sold in Japan, lost its monopoly to BMW Japan Finance but continues to handle guarantees for the finance company's instalment lending.

Straightforward consumer lending is still the mainstay of the group of companies known as the *sarakin* – or loan sharks. They too are under pressure from the banks, and tend to lend on an uncollateralised basis. However, because their interest rates are higher – the maximum allowed is 29.2 per cent – they can tolerate greater losses. Mr Kyosuke Kinoshita, president of ACOM, predicts 10 per cent growth for his company.

However, the prospects of many non-banks are blighted by bad debt problems, largely stemming from property investments which went awry. For many companies, the loans were not just straightforward commercial property loans for office blocks in Tokyo, but ambitious resort developments, such as condominiums on the Australian Gold Coast.

"Many of these investments are so far under water" that the low interest rate environment in Japan will do little to help, according to Ms Alicia Ogawa, vice-president, equity research at Salomon Brothers in Tokyo. "More important is support from their lending banks."

Worse, the extent of individual companies' problems can be hard to trace. "The problem with non-banks is that each has dozens of unlisted, unconsolidated companies involved in real estate development. Many of these companies are in serious trouble," says Ms Ogawa. For example the exposure of Nippon Shinpan to affiliates in real estate is at least three times the size of its own capital, she said.

However, some companies believe that they are nearing the end of the tunnel.

Mr Yoshihiko Miyauchi, president and chief executive officer of Orix Corporation, believes that "we are now very close to the bottom", having marked most of the company's property exposure to market.

While Orix Corporation, whose main business is leasing, has already announced a 5 per cent decline in net income on the previous year, there are some bright spots. "We are depreciating questionable accounts more than we had planned," said Mr Miyauchi. "We are taking a more conservative approach."

While leasing is Orix's core business, it also has some property exposure. However, Mr Miyauchi believes the company has benefited from its geographical diversification. "International transactions account for one third of our income," he points out.

The prospects for the industry as a whole depend largely on the impact of the government's economic package announced earlier this year. Japanese banks lent heavily to non-banks in the 1980s and are now faced with a heavy burden of bad debt.

The package allows banks to shift deteriorating assets off their balance sheets by securitising the loans.

However, according to David Marshall, an analyst at IBCA, "The measures could be viewed as another round of shuffling problem assets and not a real solution to the banks' asset quality problems."

It seems likely that the bad debt problem will continue to hang over the sector for some years

It seems likely that the bad debt problem will continue to hang over the sector for some years to come. "The general pattern here in Japan is that writing off loans takes a long time," says Mr Kyosuke Kinoshita of ACOM.

Tracy Corrigan

■ COLLATERAL

More bad loans than expected

Until the collapse of the asset boom of the late 1980s, Japan had been gripped by the "land legend" – that property prices never fell and that a piece of real estate would be the solution to any financial problem.

Among the many believers were the country's banks, which lent limitlessly during the 1980s as long as the loans were backed by land collateral. However they have become casualties of the plunge in land prices and are burdened by mounting bad loans and the inability to sell the real estate collateral due to the property market's prolonged slump.

The banks have recently started to tackle their bad loan problems due to the realisation among bureaucrats that the amount of bad loans are far larger than initially expected – widely believed to be about Y30,000bn at the top 21 banks.

Although this approach deviates from the Ministry of Finance's traditional attitude to bad loans – where banks would sit on their bad and risky loans until the economy recovered rather than writing the loans off or making provisions – financial authorities fear that the financial system will face a credit crunch if the banks are unable to make new loans due to their deteriorating balance sheets.

The need for banks to warehouse their bad loans until the real estate market and the economy recover led to the creation of the Co-operative Credit Purchasing Company (CCPC) established by the banks themselves a year ago.

The CCPC was created after strong public opposition to the government's suggestions of using state funds to bail out the banks. The banks sell their bad debt backed by real estate collateral to the CCPC at a discount, subsequently writing the difference off as an income loss. The CCPC, which buys a loan with funds injected by the bank selling the loan, then tries to recover it, in some cases selling the property collateral to the real estate market.

However, the efforts of the CCPC so far have raised doubts over how much of the banks' problems it can solve. Banks have sold Y2,857.1bn of their bad debt to the CCPC, but by the end of February, it has only been able to collect 0.6 per cent of the total loans purchased and has only managed to sell 0.5 per cent in land collateral.

Since a bank's lending to one entity is limited to 20 per cent of the bank's capital, commercial bankers fear that unless the CCPC can dispose of the loans, a second and third CCPC would need to be created.

The finance ministry is also considering plans to allow banks to set up subsidiaries which will buy land collateral from the banks at a court auction price. In short, the banks will sell the land to themselves, while booking the loss on the sale as a tax deduction.

Mr James Fiorillo, financial analyst at brokers Baring Securities, reckons that the plan, if implemented, would speed up the disposal of bad debts since the possession of the land collateral will change from the original owner to the banks.

Meanwhile, the Ministry of Finance has recently announced plans to allow banks to set up special purpose companies to which they can shift "restructured loans" – loans on which banks have waived all or most of the interest to help restructuring – to non-bank financial institutions. According to IBCA, the UK bank credit rating agency, resolving the bad loan problem could cost the leading 21 banks more than Y10,000bn, assuming that a third of total problem loans needed to be written off.

The banks are likely to write off or set provisions for some Y4,000bn this business year. They will be left with Y6,000bn plus further increases in bad loans which the agency expects will take at least three to five years for the stronger banks to resolve.

However, plans where banks fund separate entities to buy and warehouse the bad or restructured loans and land collateral until the economy or real estate market picks up, leave the financial institutions vulnerable to a rise in interest rates.

And while the schemes will speed up the process of bad loan write-offs – thus allowing banks to remove problem assets from their books – it will pose problems for investors because the complex structure and the lack of transparency make virtually impossible the assessment of the real risks which the banks face.

When selling a bad loan to the CCPC, a bank will need to supply the funds in order for the purchasing company to buy it. In effect, the bank is changing a non-performing loan to a company into a performing loan extended to the CCPC.

Since the banks only reveal non-performing loans on their balance sheets and not those transferred to the CCPC, the amount of disclosed bad loans will be significantly distorted.

IBCA warns that such accounting practices deviate from western standards and are far from prudent. However, on the other hand, it claims that credit risks associated with Japanese banks remain low since the measures reflect a strong commitment of the financial authorities to maintain the integrity of the country's financial system.

Rather than helping individual banks, the Ministry of Finance is providing support to the "system" by establishing a framework in which banks can tackle their bad loan problems at their own pace with limited public scrutiny.

Emiko Terazono

■ FOREIGN INSTITUTIONS

Firms switch staff to Hong Kong

For the foreign financial institutions which flock to Tokyo, the city is still a key financial centre, at the heart of the world's second-largest economy. But Tokyo is losing its status as a base for the entire Asia Pacific region.

Even five years ago, it would have been unheard of for a large foreign institution to set up its Asian headquarters anywhere but Tokyo. The standard split was to divide the world into three main regions: North America, Europe (including the Middle East and sometimes Africa) and Asia. The development of business in emerging markets in the past few years has changed that view of the world.

At the same time that business in Asia's emerging markets was becoming increasingly profitable, the Japanese market turned. The collapse of the stock market, the slide into economic recession and the relative isolation of Japan from the rest of Asia began to make Tokyo seem a less obvious choice as Asian headquarters.

Hong Kong was the most obvious rival for the title. At the time, rents were cheaper and salaries and taxes lower, and many banks and securities houses started to shift staff from Japan to Hong Kong – or at least to build up staff in Hong Kong rather than Tokyo.

This process has accelerated in the past year, even though Hong Kong's costs have now caught up with Tokyo. Salomon Brothers, for example, has just created an Asia Pacific group which excludes Japan.

One banker estimates that the number of staff in Hong Kong employed by US firms has doubled in the past year or two, while numbers in Tokyo are static or falling.

Salomon currently employs 500 staff in Tokyo; 60 fewer than a year ago. Merrill Lynch also has a staff of 500; down 100 after running down its private client business, although its institutional business is growing. But Merrill's Hong Kong staff base has trebled in the last year.

There has also been a build-up of staff in Singapore, which many banks view as a back-up, in case things go wrong in Hong Kong when the Chinese take over in 1997. Some bankers feel that the greatest threat to Tokyo could ultimately come from Shanghai, where they think the Chinese may try to set up a new financial centre for Asia.

Back in Tokyo, different groups of foreign institutions have tended to focus on different areas of business. While the UK houses entered the brokerage side of the market, the largest players in the Japanese market are the US houses, which came in on the bond side of the business but have tried to build up a broad capital markets base, incorporating foreign exchange, corporate finance and derivatives.

NatWest is so far the only foreign stockbroker to give up its *membership on the Tokyo Stock* Exchange

The US firms which at first concentrated on proprietary or programme trading, such as Salomon Brothers and Morgan Stanley, have now moved into broader capital markets business.

In the past few years, there has been a shift from equities to bond business, reflecting the depressed state of the Japanese stock market, and the bull market for bonds in 1992 and 1993.

"Given what happened in the equity market, there has been a noticeable shift in investor demand from equities to bonds," said Mr Louis Faust, branch manager of Salomon which has made "some selective additions in fixed income," while introducing a voluntary retirement programme in the equity support group.

Some areas of business – particularly underwriting – have proved, not surprisingly, difficult to break into. Most foreign institutions say they are not trying to compete for domestic underwriting business, but that, for example, a US house should be able to win mandates to bring Japanese companies to the US market.

"We are not trying to compete with domestic institutions on their own turf, but where there is a cross-border advantage or smart technology," said Mr Richard Dunn, managing director of Merrill Lynch in Japan."

The big Swiss banks, while lagging behind the largest US houses, have also built up sizeable operations, and are also active in the trust business.

Other firms have built up businesses in niche areas, for example Société Générale in derivatives.

Meanwhile, conventional stockbroking has proved an extremely difficult area, for domestic as well as foreign institutions.

NatWest is so far the only foreign stockbroker to give up its membership on the Tokyo Stock Exchange (in 1992), which it obtained in 1988 after pressure had been put on the Japanese authorities by the UK government. NatWest is now trying to rebuild its position, concentrating on the fixed income side of the business.

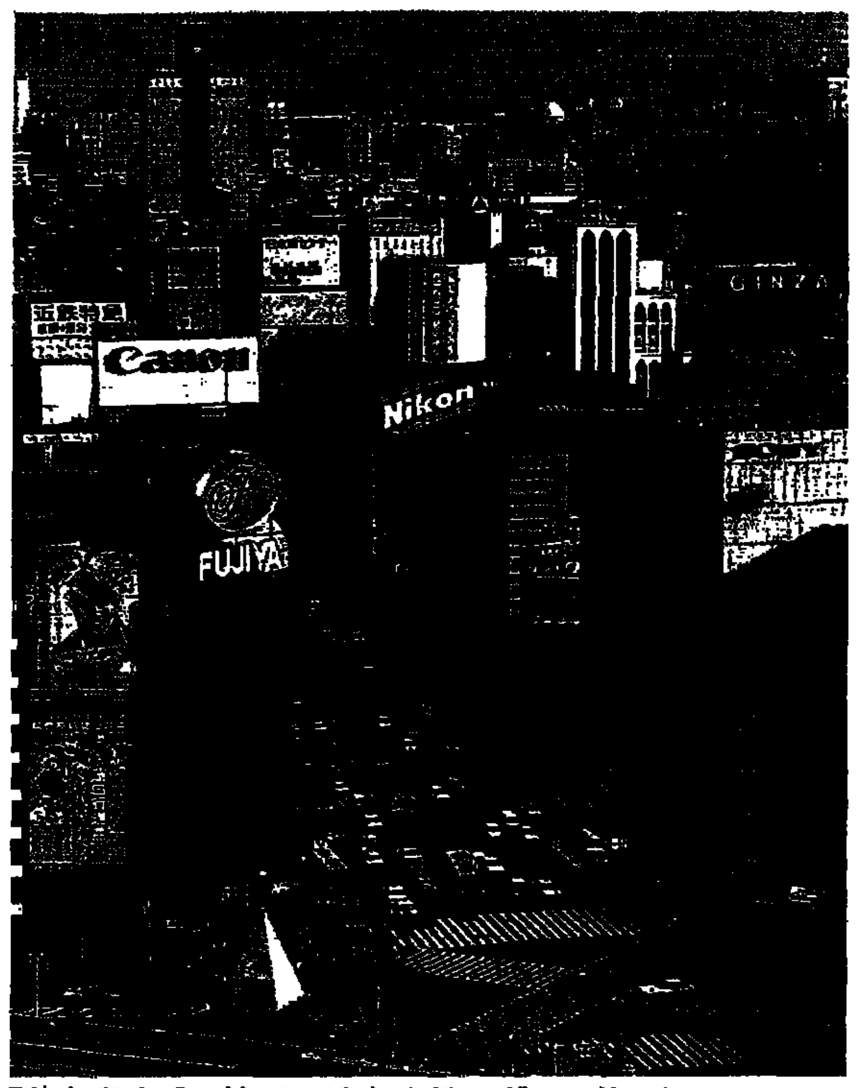
Other UK banks, mainly the merchant banks, continue to concentrate on mainstream stockbroking business, but many have been forced to cut staff. Baring Securities cut back in 1992 because of the reduction in share volume from about \$2bn a day in 1989 to about \$200m, and has been building up its emerging market business. "There has been a net transfer of staff out of Japan to elsewhere in Asia – about 30-40 people in the past two years," said Mr Diarmaid Kelly, deputy chairman of Baring Securities. Tokyo staff has dropped from 245 to 190. However, he believes that in time the Japanese operation will benefit from the growth in Baring's emerging market expertise.

"The Japanese haven't invested a great deal in emerging markets or foreign equities yet, but that is coming, as night follows day." He argues that Japanese companies have invested huge amounts in businesses in Asia in the past few years and that is bound to be followed by investment by investors.

For the moment, although the basic business of the foreign brokerage firms in Japan is selling Japanese shares to European clients, or less frequently European shares to Japanese clients.

If predictions of an upturn in the Japanese equity market are realised, Japanese equity volume could also be set to increase. Some analysts are already predicting that Japanese investors will shift from bonds to equities at the start of their new financial year in April.

Tracy Corrigan



Tokyo is still a key financial centre, at the heart of the world's second-largest economy

■ BOND MARKET

Key changes are in place

The Japanese domestic bond market, long hindered by archaic practices, has at last started to modernise.

Until now, the high level of fees charged, limits on the amount of issuance allowed by individual companies and the lack of secondary market trading have effectively capped the domestic market's development – although some borrowers have continued to use the market, partly as a means of gaining access to Japanese retail investors.

In the past year, the limit on the maximum amount of new issues has been lifted.

"Shelf registration has been very much simplified by the Ministry of Finance," said Mr Keiichi Yoshida, manager of the treasury division at NEC Corporation. "Before, you had to get permission to issue a single bond. Now, you can register a maximum amount for two years."

The finance ministry has also lowered the minimum credit rating for issuing foreign and domestic yen bonds by Japanese companies to triple-B from single-A, opening the market to a broader range of borrowers. Restrictions on the issuance of floating-rate notes have also been lifted.

Most fundamentally, the market suffers from the lack of an efficient clearing system

In addition, high fee levels, which used to make the market very uncompetitive relative to the Euroyen bond sector, have been substantially reduced – by as much as 50 per cent, according to market practitioners.

The granting of securities licenses to a handful of Japanese banks has helped generate more competition in the sector.

In addition, efforts have been made to modernise market practices, eradicating the traditional structure of fee-earning securities houses and chief commissioned banks.

In December 1991, Nippon Telegraph and Telephone launched the first domestic bond using a fixed price reoffer mechanism, which is designed to set the price of an issue according to market sentiment and create a more transparent price for investors.

In addition, rather than dividing, say, a Y30bn issue into three tranches of Y10bn, dividing business between different securities houses in order to keep them sweet, companies have started to issue bonds in large amounts, which helps improve their liquidity.

"So far as issue volume is concerned, we are trying to issue bonds as big as possible," said Mr Hiroshi Tsuchiya, deputy general manager, finance and treasury division, at NTT.

However, the market is not without its problems. Most fundamentally, it suffers from the lack of an efficient clearing system.

The market could also be held back by a general lack of issuance, since many companies do not need to borrow fresh money in the recession.

"We need the economy to improve so that there is borrowing for capital expenditure, said Mr Hiroshi Hayakawa, general manager, capital markets at Nomura Securities. "Companies are still slimming down their balance sheets rather than borrowing."

The domestic market has also been affected by changes to the rules governing issues in the Euroyen bond market.

Last year, the selling restrictions for Euroyen bonds issued by sovereign and supranational borrowers were lifted. Previously, there was a 90-day lock-up period before such paper could be sold in Japan.

This easing is expected to be extended in time to Euroyen bonds issued by companies. In the longer-term, the result is likely to be a convergence, in pricing, between the domestic and Euroyen bond markets.

However, one casualty of the changes has been the Samurai bond market – the domestic bond market for foreign borrowers, once widely used by sovereign and supranational borrowers. The ability to place Euroyen paper directly into Japan has removed the incentive for top borrowers to tap the Samurai market. Instead, the market is now frequented by lower-rated sovereign borrowers, such as Turkey and Hungary, who are taking advantage of the fact that the domestic market is less credit-sensitive.

The market is now frequented by lower-rated sovereign borrowers

Although a number of key changes to the domestic market are now in place, the development of an actively traded corporate bond market is likely to take some time – some market participants put it at five or 10 years.

However, the concentration of issuance by Japanese companies in the Euroyen market is likely to shift.

"As a long-term trend we think that borrowers will return to the domestic bond market," said Mr Hayakawa of Nomura.

Tracy Corrigan

COMMODITIES AND AGRICULTURE

Mixed feelings greet Nigeria's big cocoa crop

By Paul Adams in Lagos

Cocoa farmers, traders and exporters in Nigeria are greeting the end of the 1993-94 season with mixed feelings: delight at the crop yields and fear that foreign exchange restrictions will drive the export of cocoa beans underground or out of business.

This season's crop matched last year's but the world price for Nigerian cocoa is much stronger – averaging $1,200 a tonne. The 1993-94 crop produced 135,000 tonnes of which 120,000 has been harvested. The remaining 15,000 tonnes will be harvested in the mid crop starting April till August, when weight and butter fat content of the beans are low.

"It has been an excellent season for Nigerian farmers and traders. Everyone has made money," said a spokesman for one of the leading cocoa exporters.

The 1994 budget in January put a stop to the optimism. The budget pegged the official rate of the naira at 22 to the US dollar, outlawed the parallel market and decreed that all exporters must repatriate and sell their dollars at N22 to the central bank of Nigeria.

Exporters who paid farmers N47,000 a tonne and sold for $1,200 a tonne would have to re-sell the same dollars to the government for only N26,400, making a loss of 56 per cent on the currency transaction alone.

Traders predict that farm prices for Nigerian cocoa for the mid-season crop will be down to N35,000 a tonne ($730 at the parallel rate).

Some traders were able to carry on exporting cocoa legitimately after the budget because they had sold dollars far enough forward to see them through the season. All but 15,000 tonnes of the harvest had been shipped by mid-March. Exporters without forward dollar contracts had two choices: either stop buying from the farmers or smuggle the cocoa so that the dollars did not have to be repatriated.

Cocoa remains Nigeria's biggest export earner after oil, despite inconsistent government policies affecting trade and investment. It is one of the successes of deregulation in the 1980s, which abolished the state marketing board, brought international traders into the market.

As farmers' prices improved the crop almost doubled in less than a decade. Although the currency has depreciated by about 90 per cent on the legal parallel market to about N48 in the past year, the farm gate prices have risen sharply in real terms.

"It is fortunate that the budget came at the end of the harvest – most of the cocoa had been exported," says an international trader. "We are just hoping some sanity will be restored before the main 1994-95 harvest."

Fears over the outlook for the 1994-95 season could undermine the hard work and investment that goes into cocoa farming between April and October. The investment in fertilisers and chemicals to stop black pod disease has been essential to the improved output in recent years. With the export market so uncertain the farmers' commitment and the necessary credits may be in short supply.

Papua New Guinea plans to phase out log exports

Papua New Guinea plans to phase out all log exports by the year 2000 in order to achieve sustainable forestry, Mr Tim Neville, the forests minister, said yesterday, reports Reuter from Sydney.

From 1995, log exports would be reduced by 10 per cent a year until 2000 when there would be no more export of round logs, Mr Neville told the 1994 Australian Forest and Timber Conference. "This government is committed to a phased reduction of log exports and would like to see an end to this by the year 2000."

He said all logging companies had until the end of July to conduct feasibility studies for processing their timber within Papua New Guinea. "Those that respond positively will be given priority for negotiation of new or revised timber concessions. Those who do not comply. . . may be denied further permission to export logs," he said.

Mr Neville estimated that the country's forests were worth US$50bn at present and thought the figure could go as high as $190bn. Recent studies indicated that the country had a sustainable harvest volume of more than 3m cubic metres a year, he said, but the government-permitted cut was 8.5n cu m. The actual cut was only around 3m cu m in 1993 but this was an increase from less than 1m in 1980 and nearly all timber was exported as unprocessed logs.

"The reality is we have allowed a gross imbalance whereby permitted harvest greatly exceeds the forest's capacity to replace itself," said Mr Neville. "This is a forestry sector which has not been controlled."

The phasing out of log exports was one of a number of initiatives to develop Papua New Guinea's forest resources as a renewable asset.

Others included measures to encourage the development of a domestic processing industry involving foreign investment, a new forest revenue system to provide greater benefits to landowners and the hiring of an independent log export monitoring and border surveillance service.

Plumbing the depths in search of food

Fishermen are showing increased interest in unfamiliar, deep-sea varieties, writes **Alison Maitland**, but scientists warn that this is a particularly vulnerable resource

Odd-looking fish that live in total darkness in the deep waters of the North Atlantic are causing something of a stir among fishermen and marine scientists.

The fishing industry is increasingly interested in these deep sea species, which include orange roughy, blue ling and round nose grenadier, as stocks of better-known fish such as cod dwindle and international quotas are tightened.

But scientists are warning that controls on deep sea fishing must be introduced before commercial exploitation becomes too widespread, threatening to wipe out a particularly vulnerable resource.

Deep water fish grow and reproduce more slowly than common species and the danger is that they may be caught before breeding and replenishing the stock. The orange roughy, for example, lives to 100 years, maturing at around 20 or 30. Cod, by comparison, lives to about 15 years if it escapes the nets, and matures at about three.

"If you have a lot of fishing effort on one stock you could clean it out very quickly and it would take a hell of a long time to recover," says Mr John Tumilty, technical director of the UK's Sea Fish Industry Authority.

Spurred by French success in the last five years in catching deep water fish off western Scotland and creating a domestic market for them, the authority convened a meeting of international scientists this month to pool the limited knowledge about these species.

The aim is to prevent over-exploitation of the kind that has led to a collapse in fish stocks off Newfoundland and the north-east coast of the US and a serious depletion in stocks of cod and most other common species in the North Sea.

"We see this as an opportunity to take early management decisions on these species to try to avoid the mistakes there have been in the past," says Mr Tumilty.

There are at least 120 different species living at depths of between 500m and 3,000 metres off western Scotland, and about 25 of these could be of commercial importance, according to Dr John Gordon of the Scottish Association for Marine Science. Dr Gordon is conducting a one-year study to ascertain whether fishing these species is sustainable commercially and ecologically.

Some are already well-known and appreciated in other parts of the world. The orange roughy, for example, has been caught in New Zealand waters since the 1970s and its thick, white, boneless fillets find a ready market in the US.

Russian fishermen have been catching North Atlantic deep water fish for ten to 15 years and there has been activity in the past few years by Faroese and Spanish fishermen in the waters off Scotland.

French trawlers began fishing there in 1989. But it is their recent success in exploiting orange roughy, which skulk off steep slopes in depths of about 1,200 metres and are among the most valuable fish caught off Scotland, that has created the new flurry of interest.

The French, understandably secretive about where they fish, land their catches in Scotland and transport them overland to be shipped to markets in France. They are believed to be catching some 5,000 tonnes a year.

According to Dr Gordon, the orange roughy contains a high proportion of valuable oil with similar properties to sperm whale and jojoba oil, but only a small amount is currently recovered by the New Zealand fishing industry.

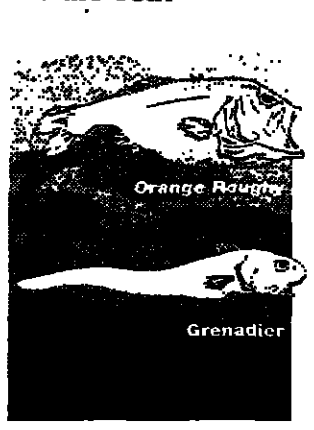
Some UK fishermen are now also keen to venture beyond the continental shelf, where they catch fish at depths of 100m to 250m. But there is uncertainty about whether Britons will accept the strange appearance of some of the deep water fish.

"It's market driven," explains Mr Tumilty. "Grenadier is found in most supermarkets in France and there's no problem of acceptability. But the French tend to be less conservative in their eating habits."

Following this month's meeting of experts, detailed recommendations on controls such as quotas will be sent to the European Commission and to governments including the UK, France, Canada, Russia, Iceland, Norway and Spain. The International Council for the Exploration of the Sea, which groups marine scientists from many countries, will meet in Copenhagen in August to study the problem.

"Our message to fisheries managers is clear," says Mr Tumilty. "This resource is fragile and needs to be managed sensibly and sensitively. If this is done, it has the potential to provide us with valuable food."

Plenty more fish in the sea?



Malaysian earnings up 16 per cent in 1993 despite sales curb

Malaysia's timber export earnings are estimated to have risen by 16 per cent to M$12.2bn (£3bn)in 1993, Mr Lim Keng Yaik, the primary industries minister, said yesterday.

However, he said the country's log exports were thought to have plunged by 50 per cent to 9.4m cubic metres, valued at M$2.9bn because of Malaysia's policy of sustainable management. "Total log exports are expected to be lower this year in view of export ban on logs by Sabah state," he told a news conference. Sabah banned the export of logs in January 1993.

The higher revenue from timber exports was due largely to the strong performance of sawn timber, estimated to have generated about M$4.4b in 1993 against M$3.4bn in 1992, Mr Lim said. Sawn timber prices rose to an average M$1,823 a cubic metre in 1993 from M$1,149 in 1992.

"However, in terms of export volume, sawn timber experienced only a slight increase of 0.9 per cent to around 5.44m cu m in 1993," the minister said.

MARKET REPORT

Silver prices recoil after bull run

SILVER prices recoiled at the London bullion market yesterday after the recent bull run as traders came to the conclusion that hopes of breaching the $6 a troy ounce resistance level for spot metal were premature.

The spot price closed at 567.5 cents, down 9.5, and other precious metals moved lower in sympathy.

At the London Metal Exchange COPPER prices retreated in sluggish conditions and dealers suggested further losses were possible. The three months price closed at $1,936.50 a tonne, down $22.

ALUMINIUM prices were more resilient as the market's fundamental's were seen to be improving.

London Commodity Exchange COCOA market, although the May position dropped back below £900 a tonne, was at least comforted by the fact that further aggressive selling did not emerge in New York in the afternoon. May seemed content to hover around the £890, last trading £13 down at £892.

Compiled from Reuter

LME WAREHOUSE STOCKS
(As at Monday's close)
tonnes

Aluminium	+50	to 2,598,700
Aluminium alloy	-400	to 45,080
Copper	-6,100	to 508,875
Lead	+2,700	to 334,800
Nickel	-54	to 138,284
Zinc	+9,600	to 1,108,726
Tin	-30	to 23,885

COMMODITIES PRICES

BASE METALS

LONDON METAL EXCHANGE
(Prices from Amalgamated Metal Trading)

■ ALUMINIUM, 99.7 PURITY ($ per tonne)

	Cash	3 mths
Close	1309.5-10.5	1333.5-4.5
Previous	1315-6	1339-9.5
High/low	1321/1319	1342.5/1331
AM Official	1320-0.5	1341-1.5
Kerb close		1331-2
Open int.	269,350	
Total daily turnover	46,651	

■ ALUMINIUM ALLOY ($ per tonne)

	Cash	3 mths
Close	1280-5	1295-300
Previous	1290-300	1310-4
High/low		1320/1305
AM Official	1303-8	1320-3
Kerb close		1295-300
Open int.	4,554	
Total daily turnover	770	

■ LEAD ($ per tonne)

	Cash	3 mths
Close	457-8	472-3
Previous	458-9	473.5-4
High/low		474/470
AM Official	455.5-6.5	470.5-1.0
Kerb close		473.5-4.0
Open int.	36,008	
Total daily turnover	5,460	

■ NICKEL ($ per tonne)

	Cash	3 mths
Close	5610-20	5680-5
Previous	5670-80	5740-50
High/low	5620	5720/5660
AM Official	5615-20	5690-5
Kerb close		5690-700
Open int.	49,326	
Total daily turnover	9,965	

■ TIN ($ per tonne)

	Cash	3 mths
Close	5445-55	5500-10
Previous	5465-75	5520-30
High/low		5545/5510
AM Official	5485-90	5535-40
Kerb close		5525-30
Open int.	19,393	
Total daily turnover	3,936	

■ ZINC, special high grade ($ per tonne)

	Cash	3 mths
Close	953.5-4.5	975-6
Previous	958.5-9.5	979.5-80
High/low	949	975/972
AM Official	948-9	970-1
Kerb close		970-2
Open int.	103,235	
Total daily turnover	33,458	

■ COPPER, grade A ($ per tonne)

	Cash	3 mths
Close	1925-6	1936-7
Previous	1949.5-50.5	1958-9
High/low	1943/1942	1952/1935
AM Official	1944-5	1951-1.5
Kerb close		1937-8
Open int.	207,883	
Total daily turnover	53,569	

■ LME AM Official £/$ rate: 1.4851
LME Closing £/$ rate: 1.4880

Spot:1.4890 3 mths:1.4838 6 mths:1.4807 9 mths:1.4782

■ HIGH GRADE COPPER (COMEX)

	Latest	Day's change	High	low	Open int	Vol
Mar	89.85	-1.00	90.60	89.80	755	613
Apr	89.90	-0.80	90.60	89.80	1,119	1
May	89.90	-0.75	90.80	89.40	40,932	5,751
Jun	89.75	-0.85	90.20	89.75	867	39
Jul	89.80	-0.75	90.55	89.50	14,220	697
Aug	90.20	-0.30	90.20	90.10	488	5
Total					79,180	8,343

PRECIOUS METALS

■ LONDON BULLION MARKET
(Prices supplied by N M Rothschild)

Gold (Troy oz.)	$ price	£ equiv.
Close	385.90-386.40	
Opening	388.60-389.00	
Morning fix	387.90	259.118
Afternoon fix	386.80	259.197
Day's High	388.50-388.90	
Day's Low	385.60-386.20	
Previous close	389.60-390.00	

Loco Ldn Mean Gold Lending Rates (Vs US$)
1 month ....3.29 6 months 3.54
2 months ....3.34 12 months 3.87
3 months 3.40

Silver Fix	p/troy oz.	US cts equiv.
Spot	375.80	562.00
3 months	380.45	568.95
6 months	385.40	573.00
1 year	395.90	588.50

Gold Coins	$ price	£ equiv.
Krugerrand	390-393	260-263
Maple Leaf	398.10-400.60	-
New Sovereign	92-95	61-64

Precious Metals continued

■ GOLD COMEX (100 Troy oz.; $/troy oz.)

	Latest price	Day's change	High	low	Open int	Vol.
Mar	387.5	-0.5	387.5	387.5	-	-
Apr	385.7	-2.4	388.1	385.0	33,000	25,352
May	389.3	-	-	-	20	4
Jun	388.2	-2.4	390.6	387.3	61,911	15,774
Aug	390.5	-2.6	392.8	390.0	8,436	198
Oct	393.0	-2.8	395.6	393.0	4,626	189
Total					14,004	1,286

■ PLATINUM NYMEX (50 Troy oz.; $/troy oz.)

	Latest price	Day's change	High	low	Open int	Vol.
Apr	408.0	-3.0	410.0	407.1	3,809	1,772
Jul	411.5	-1.5	413.9	409.0	17,143	3,118
Oct	412.0	-1.7	413.5	412.0	1,685	295
Jan	414.0	-0.5	414.0	411.0	585	33
Apr	415.5	-0.5	415.5	414.5	825	34
Total					24,047	5,252

■ PALLADIUM NYMEX (100 Troy oz.; $/troy oz.)

	Latest price	Day's change	High	low	Open int	Vol.
Mar	135.40	-0.95	143.00	143.00	1	1
Jun	133.50	-1.65	135.25	133.25	4,086	105
Sep	134.75	-0.40	134.75	134.75	420	4
Dec	134.90	-0.95	-	-	261	2
Total					4,789	112

■ SILVER COMEX (100 Troy oz.; Cents/troy oz.)

	Latest price	Day's change	High	low	Open int	Vol.
Mar	580.0	+0.1	571.5	565.0	257	151
Apr	567.9	-	-	-	5	-
May	582.0	-7.7	574.5	559.0	73,363	20,558
Jul	586.5	-7.3	578.5	563.0	18,813	1,895
Sep	568.0	-10.2	582.0	568.0	5,429	113
Dec	577.0	-7.7	590.0	575.0	10,159	401
Total					119,042	23,173

ENERGY

■ CRUDE OIL NYMEX (42,000 US galls. $/barrel)

	Latest price	Day's change	High	Low	Open int	Vol
May	14.12	+0.04	14.22	14.05	110,083	100,178
Jun	14.23	+0.05	14.32	14.15	75,112	48,445
Jul	14.34	+0.03	14.42	14.30	37,180	15,226
Aug	14.54	+0.08	14.58	14.45	19,778	2,587
Sep	14.68	+0.07	15.53	14.63	21,308	3,494
Oct	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Total					[illegible]	[illegible]

■ CRUDE OIL IPE ($/barrel)

	Latest price	Day's change	High	Low	Open int	Vol
May	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Jun	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Jul	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Aug	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Sep	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Oct	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Total					[illegible]	[illegible]

■ HEATING OIL NYMEX (42,000 US galls; c/US galls.)

	Latest price	Day's change	High	Low	Open int	Vol
Apr	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
May	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Jun	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Jul	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Aug	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Sep	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Total					[illegible]	[illegible]

■ GAS OIL IPE ($/tonne)

	Sett price	Day's change	High	Low	Open int	Vol
Apr	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
May	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Jun	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Jul	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Aug	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Sep	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Total					[illegible]	[illegible]

■ NATURAL GAS NYMEX (10,000 mmBtu; $/mmBtu)

	Latest price	Day's change	High	Low	Open int	Vol
May	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Jun	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Jul	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Aug	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Sep	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Oct	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Total					[illegible]	[illegible]

■ UNLEADED GASOLINE
NYMEX (42,000 US galls.; c/US galls.)

	Latest price	Day's change	High	Low	Open int	Vol
Apr	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
May	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Jun	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Jul	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Aug	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Sep	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Total					[illegible]	[illegible]

GRAINS AND OIL SEEDS

■ WHEAT LCE (£ per tonne)

	Sett price	Day's change	High	Low	Open int	Vol
May	110.15	+1.90	110.00	108.50	1,579	271
Jun	111.15	+2.05	111.00	109.50	569	128
Sep	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Nov	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Jan	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Mar	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Total					[illegible]	[illegible]

■ WHEAT CBT (5,000bu min; cents/60lb bushel)

	Sett price	Day's change	High	Low	Open int	Vol
May	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Jul	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Sep	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Dec	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Mar	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
May	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Total					[illegible]	[illegible]

■ MAIZE CBT (5,000 bu min; cents/56lb bushel)

	Sett price	Day's change	High	Low	Open int	Vol
May	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Jul	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Sep	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Dec	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Mar	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
May	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Total					[illegible]	[illegible]

■ BARLEY LCE (£ per tonne)

	Sett price	Day's change	High	Low	Open int	Vol
May	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Sep	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Nov	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Jan	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Mar	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Total					[illegible]	[illegible]

■ SOYABEANS CBT (5,000bu min; cents/60lb bushel)

	Sett price	Day's change	High	Low	Open int	Vol
May	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Jul	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Aug	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Sep	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Nov	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Jan	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Total					[illegible]	[illegible]

■ SOYABEAN OIL CBT (60,000lbs; cents/lb)

	Sett price	Day's change	High	Low	Open int	Vol
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

■ SOYABEAN MEAL CBT (100 tons; $/ton)

	Sett price	Day's change	High	Low	Open int	Vol
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

■ POTATOES LCE (£/tonne)

	Sett price	Day's change	High	Low	Open int	Vol
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

■ FREIGHT (BIFFEX) LCE ($10/index point)

	Sett price	Day's change	High	Low	Open int	Vol
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

	Close	Prev
BFI	1206	1199

SOFTS

■ COCOA LCE (£/tonne)

	Sett price	Day's change	High	Low	Open int	Vol
Mar	864	-27	875	870	53	6
May	892	-13	[illegible]	889	20,513	2,655
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

■ COCOA CSCE (10 tonnes; $/tonnes)

	Sett price	Day's change	High	Low	Open int	Vol
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

■ COCOA (ICCO) (SDR's/tonne)

[illegible]

■ COFFEE LCE ($/tonne)

	Sett price	Day's change	High	Low	Open int	Vol
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

■ COFFEE 'C' CSCE (37,500lbs; cents/lbs)

	Sett price	Day's change	High	Low	Open int	Vol
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

■ COFFEE (ICO) (US cents/pound)

[illegible]

■ No7 PREMIUM RAW SUGAR LCE (cents/lbs)

[illegible]

■ WHITE SUGAR LCE ($/tonne)

	Sett price	Day's change	High	Low	Open int	Vol
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

■ SUGAR '11' CSCE (112,000lbs; cents/lbs)

	Sett price	Day's change	High	Low	Open int	Vol
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

■ COTTON NYCE (50,000lbs; cents/lbs)

	Sett price	Day's change	High	Low	Open int	Vol
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

■ ORANGE JUICE NYCE (15,000lbs; cents/lbs)

	Sett price	Day's change	High	Low	Open int	Vol
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

VOLUME DATA
Open interest and Volume data shown for contracts traded on COMEX, NYMEX, CBT, NYCE, CME, CSCE and IPE Crude Oil are one day in arrears.

Minor Metals
[illegible]

INDICES

■ REUTERS (Base: 18/9/31=100)

Mar 29	Mar 28	month ago	year ago
[illegible]	[illegible]	[illegible]	[illegible]

■ CRB Futures (Base: 1967=100)

Mar 28	Mar 25	month ago	year ago
[illegible]	[illegible]	[illegible]	N/A

MEAT AND LIVESTOCK

■ LIVE CATTLE CME (40,000lbs; cents/lbs)

	Latest price	Day's change	High	Low	Open int	Vol
Apr	76.925	+0.025	77.025	76.900	29,791	5,664
Jun	74.400	-0.100	74.575	74.325	25,185	3,049
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

■ LIVE HOGS CME (40,000lbs; cents/lbs)

	Latest price	Day's change	High	Low	Open int	Vol
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

■ PORK BELLIES CME (40,000lbs; cents/lbs)

	Latest price	Day's change	High	Low	Open int	Vol
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

LONDON TRADED OPTIONS

Strike price $ tonne — Calls — — Puts —

■ ALUMINIUM (99.7%) LME
■ COPPER (Grade A) LME
■ COFFEE LCE
■ COCOA LCE
■ BRENT CRUDE IPE

[illegible]

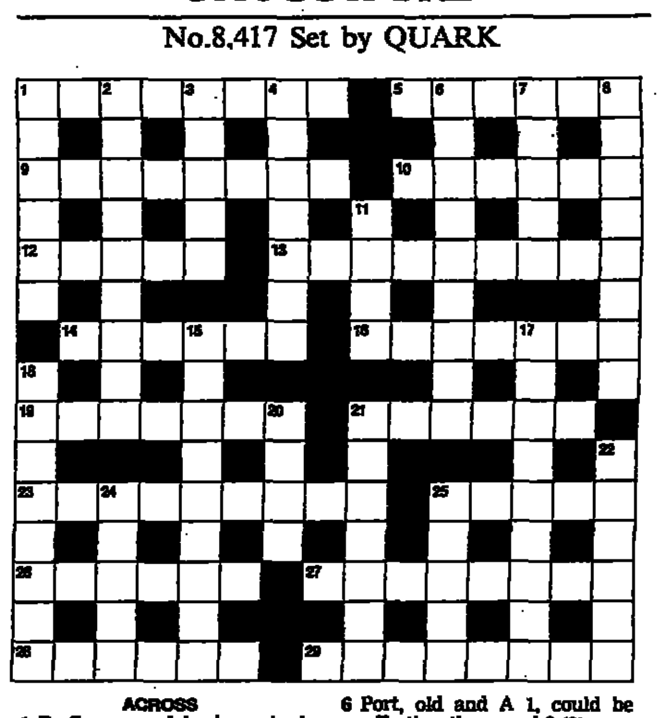
LONDON SPOT MARKETS

■ CRUDE OIL FOB (per barrel/May)
■ OIL PRODUCTS NWE prompt delivery CIF (tonne)
■ OTHER

[illegible]

CROSSWORD

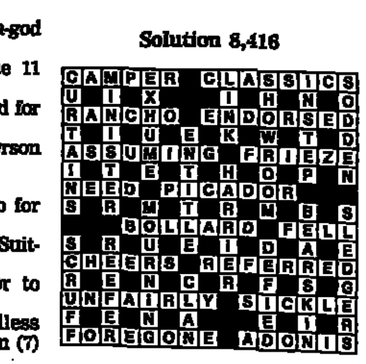
No.8,417 Set by QUARK



ACROSS
1 R. Cam – and keel capsized, providing the 11 (8)
5 Diminutive girl's half day would be 11 (6)
9 No North/South interchanging seen? Rubbish! (8)
10 Society put me in difficulties. There's a partition (6)
12 Duck with empty space (egg-shaped) (5)
13 Four small volumes I ordered. Not sensible? (9)
14 Unruly rabble for the 11 (6)
16 Possessed the weed for the 11 (7)
19 It's essential to contemplate rally of the side (7)
21 Welcome with Salvation Army instrument (6)
23 Pessimistic prophet is about fool and artist (9)
25 The 11 on ice? (5)
26 The refrain about the sea-god (6)
27 Box with heather for the 11 (8)
28 Voting ban not introduced for the 11 (6)
29 The 11 left in a stupid person (8)

DOWN
1 Cut grass around the pub for the 11 (6)
2 Study issue over worker. Suitable? (9)
3 People going in to editor to change the text (5)
4 Supporter embraces endless fun suitable for relaxation (7)
6 Port, old and A 1, could be affecting the speech? (9)
7 Car test? "Book up" is the maxim (5)
8 Smith has more than one! (8)
11 Angle? (4)
15 Cockney's cart, lined up we hear with a 11 (9)
17 Exclude from society Scot and raise worries (9)
18 Judge's former wear gets the bird (8)
20 A board game is rarely loud (4)
21 Producer of cuts in the theatre (7)
22 A garden could be protected against loss (6)
24 Acrobatic air manoeuvres turning up in the reel? (5)
25 The 11 to catch a 1 across (5)

Solution 8,416



JOTTER PAD

LONDON STOCK EXCHANGE

MARKET REPORT

Share prices close easier in uncertain trading

By Terry Byland, UK Stock Market Editor

Share prices moved sharply in an erratic trading session in London yesterday, as equally uncertain trends in bonds kept investors confused over the near term outlook for domestic securities markets. The blue chip trading houses continued to wind down their positions ahead of the Easter weekend, and gilt-edged specialists were focusing on today's auction of £2.5bn short-dated bonds in London's first floating rate offering of government securities.

The day's peak of 3,144.9 on the FT-SE 100 Index, 15.4 above the overnight level, came very early in the session. Once again buying interest was thin and shares turned off sharply when the government bond market began to fall away. An easier trend in sterling helped shares in the export leaders towards the close but this was counter-balanced by a fall of 33 points on the Dow Jones Industrial Average early in the New York trading session.

The closing reading put the FT-SE 100 at 3,123.4 with a decline on the day of 6.1 points. Much of the movement in the Footsie stocks originated from the stock index futures sector. Lacking this distraction, the FT-SE Mid 250 Index gained 3.1 at 3,788.8, although trading in second-line issues was modest.

Although oil prices steadied, shares in the major producer companies weakened on overnight selling in US markets. Pharmaceuticals drifted lower in nervous trading towards the close, when Wall Street was reacting sharply to data on consumer confidence and housing starts. Glaxo eased following confirmation that Losec, Astra's rival to Glaxo's highly successful Zantac drug, had been licensed for sale in the UK.

Gyrations in the UK bond market, while not affecting share prices as directly as in some recent sessions, unsettled market confidence yesterday. There are constant rumours that at least one London based securities house has suffered heavy losses in gilts and that the erratic trend in the bond market reflects its attempts to restructure its trading position.

Bonds are also perturbed by the interest rate pressures from outside the UK. The rest of the week, including Friday when most European markets are closed, will feature a flow of important economic statistics on the US economy, which will refocus investment attention on the likelihood of a further tightening in credit policy by the Federal Reserve.

Both fund managers and market traders have already begun to concentrate on keeping positions tightly trimmed over the Easter holiday weekend. Seaq volume, at 673.9m shares, was higher than on Friday but at the low end of daily averages; Friday's Seaq volume was worth only £1.2bn in retail worth.

Underlying confidence remains firm, however, with several leading investment banks continuing to urge clients that UK equities present a buying opportunity at present levels.

BZW said that the stock market "has now moved into overshoot"; in focusing almost exclusively on interest rate prospects, it has overlooked the "positive indications for earnings recovery" appearing in the company results list.

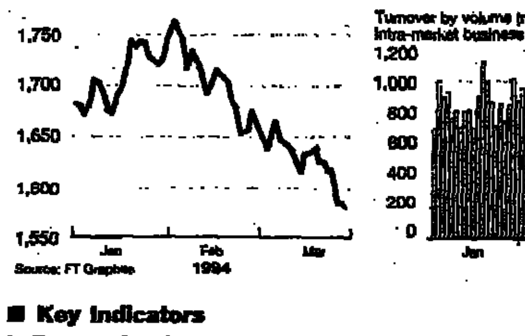
Last week's "poor" retail price index has not changed the outlook for inflation, believes Mr Chris Dillow at Nomura Research. He suspects that the underlying rate will end this year at 3.2 per cent and next year at around 4.4 per cent.

Account Dealing Dates

*First Dealings:	Mar 14	Mar 28	Apr 11
Option Declarations:	Mar 24	Apr 7	Apr 21
Last Dealings:	Mar 25	Apr 6	Apr 22
Account Day:	Apr 5	Apr 18	May 3

*New time dealings may take place from two business days earlier.

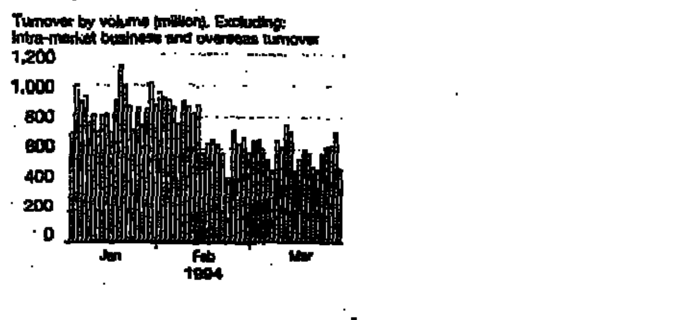
FT-SE-A All-Share Index



Source: FT Graphite

Equity Shares Traded

Turnover by volume (million). Excluding: Intra-market business and overseas turnover



■ Key Indicators

Indices and ratios

FT-SE 100	3123.4	-6.1	FT Ordinary index	2470.1	-9.5
FT-SE Mid 250	3788.8	+3.1	FT-SE-A Non Fins p/e	21.04	(21.06)
FT-SE-A 350	1588.3	-2.1	FT-SE 100 Fut Jun	3118.0	-14.0
FT-SE-A All-Share	1579.99	-2.01	10 yr Gilt yield	7.87	7.95
FT-SE-A All-Share yield	3.68	(3.67)	Long gilt/equity yld ratio:	2.22	(2.20)

Best performing sectors

1. Merchant Banks ... +1.4
2. Household Goods ... +1.0
3. Banks ... +1.0
4. Electricity ... +0.8
5. Telecommunications ... +0.6

Worst performing sectors

1. Tobacco ... -2.3
2. Building Mats ... -1.4
3. Building & Cons ... -1.2
4. Oil, Integrated ... -1.0
5. Property ... -1.0

Property valuations concern

Concern over stock market valuations of property stocks was underlined yesterday by a disappointing announcement from Hammerson. The board statement showed Hammerson's net asset value (nav) as 343p a share, which was well to the lower end of market forecasts. This highlighted nervousness ahead of a batch of impending property share flotations.

With the sector undergoing a correction following a powerful performance in the past 18 months, analysts fear these flotations may prove disappointing. First of the batch is Capital Shopping Centres, which begins trading today.

Some brokers suggest the shares could open at about 210p, a 20p discount to the issue price of 230p. The issue price was calculated at a 13 per cent premium to net asset value at a time when the property sector was trading at an average premium to asset value of about 20 per cent. However, this has now fallen to around 5 per cent. Last week it was revealed that only 14.4 per cent of the public offer had been taken up.

Hammerson's shares, which fell back on the results, later rallied on consideration of a £143m deal with Postel, the investment group. After dropping to 348p at one stage, they finished 8 down on balance at 354p.

Mr Graham Stanley at Goldman Sachs said: "This sensible deal bolsters short term income and provides some interesting medium term redevelopment opportunities."

BAe worries

British Aerospace was forced yesterday into its second announcement over the level of foreign investment, and revealed a breach of the 29.5 per cent ownership ceiling. BAe said it would now take steps to sell the 0.03 per cent of shares over the government-imposed limit at "the best price reasonably obtained". The announcement came after the market had closed and BAe shares had fallen 5 to 501p on turnover of about 700,000.

BAe finds itself in a similar situation to Rolls-Royce, which has also had to force the sale of foreign-held shares breaching its 29.5 per cent limit. Both companies are believed to be lobbying to have the ceilings – which were imposed to prevent the two defence-related companies being dominated by foreign interests – raised to 49.5 per cent. Rolls-Royce shares fell 6 to 175p.

Shares in high street bank Lloyds jumped yesterday as hopes for a pick up in growth and lower UK interest rates prompted one securities to lift forecasts and another to promote the sector. The shares were 13 better at best before drifting with the market to close 6 stronger at 568p.

UBS sharply upgraded dividend and profit forecasts and issued a buy recommendation. The house believes Lloyds has begun to adopted a more expansionary attitude and the bank's dividend will increase by 15 per cent a year to hit 25.5p this year and 34p in 1996. UBS increased its 1994 forecast by £50m to £1.37bn and its 1995 number by £70m to £1.62bn billion.

Meanwhile, Salomon International, the US investment bank, highlighted its belief that interest rates have further to fall and focused on the banking sector as offering attractive yields as well as exposure to further rises in the stock market. NatWest, up 6 at 470p and TSB, up a penny at 219p, also benefited from the Salomon recommendation.

Strong results from Next powered the shares forward 6 to 231p, with turnover hitting 7.3m. Profits for the high street retailer were at the top end of market forecasts and the final dividend was doubled. Analysts were further encouraged by the comments on current trading, with talk that sales from the mail order business were 20 per cent up on last year.

A raft of upgrades pushed next year's forecasts towards the £90m mark, with some bullish analysts looking for another doubling of the dividend to 8p. But with the shares having performed so strongly, there were some notes of caution being struck. Hoare Govett was one house suggesting the shares as a 'hold' with doubts over whether the impressive sales performance could be sustained.

Croda International fell smartly after announcing a big jump in full-year profits to £48.9m. The company said there would be no pension holiday this year and some dilution from a disposal. The two technical factors are expected to knock about £3.9m off earnings and analysts cut forecasts accordingly. Smith New Court reduced its 1994 estimate by £4m to £40m and advised customers to take profits yesterday. The shares slipped 24 to 352p.

Hickson International eased only 2 to 208p in spite of a year which saw profits drop to £22.1m from £24.3m previously. Analysts felt most of the bad news was out of the way and there was optimism over a new washing detergent agent. Kleinwort Benson held its profit forecast at £28m.

Oil stocks again reacted to this week's sharp falls in oil prices. Fundamentally bearish broker SGST reiterated its gloomy stance and argued that oil price weakness was now a long term fact of life rather than a temporary phenomenon. BP fell 9½ to 356½p on very heavy turnover of more than 14m shares following sharp falls in New York on Monday night. Exploration and production group Enterprise lost 3 at 404p. Shell Transport recovered 2 to 659p from what many consider an oversold position.

Pharmaceuticals group Glaxo shed 7 to 614p after Swiss rival Ciba-Geigy said it was confident about its efforts to market a cheap version of Glaxo's Zantac, the world's top-selling drug.

British Bio-technology, which announced a one for three rights issue at 400p a share to raise £40m to pay for product development added 5 at 470p. The rights issue had been flagged but analysts pointed out that the issue included a warrant which would yield a further £48m in 1996, thus solving the company's funding requirement for the next two years.

Standard Chartered was one of the few banks in the sector to lose ground as Credit Lyonnais Laing lowered its profit forecasts and reinforced its sell stance. Worries on Hong Kong margins prompted Laing to cut this year's estimate by £26m to £441m and next year's by £23m to £425m. The shares fell 17 to 1046p while rival HSBC gained 17 by the same amount to 764p with some talk of switching between the two.

Manufacturer Dominick Hunter made an encouraging market debut opening at the issue price of 200p but gaining 24 to 224p.

Coal Investments which were suspended last month at 76p resumed trading at 77p and jumped to 84p.

Publication of the full report and accounts saw Reed International bounce 16 to 851p. The shares fell recently in spite of increased figures as analysts focused on the pressure from rising paper prices, but those worries have receded as companies have stressed that they have locked in prices.

MARKET REPORTERS:
Christopher Price,
Peter John.

■ Other statistics, Page 26

NEW HIGHS AND LOWS FOR 1993/94

NEW HIGHS (18).
BUILDING & CNSTRN (1) Sheriff Hldgs, DIVERSIFIED INDLS (2) Ropner, Do. 'A', ELECTRNC & ELECT EQUP (1) Thorpe (F.W.), ENGINEERING (3) Meteor, Six Hundred Grp, UMECO, ENG. VEHICLES (1) Daimler-Benz, EXTRACTIVE INDS (6) Coal Invs., Monarch Res, NSM, St. Barbara, Wace Blake, HEALTH CARE (1) Fornix, HOUSEHOLD GOODS (1) Delaney, INVESTMENT TRUSTS (2) Mauritius Fund, Worth Inv Tst, LEISURE & HOTELS (1) Aberdeen Steak Houses.
NEW LOWS (91).
GILTS (59) OTHER FIXED INTEREST (2) BUILDING & CNSTRN (1) Ball (AH), DIVERSIFIED INDLS (1) Trafalgar Hse Pfd Pt, EXTRACTIVE INDS (1) Portman, FOOD MANUF (1) Dalepak Foods, HEALTH CARE (1) Anagen, INSURANCE (1) Hiscox Select Ins Fd, INVESTMENT TRUSTS (2) Baring Emrg Euro, Kleinwort Euro Prvt Wrts, LEISURE & HOTELS (1) Tomorrows Leisure, MEDIA (1) Gold Greenlees Trott, OIL EXPLORATION & PROD (1) Coplex Res, OTHER FINANCIAL (1) Energy Capital, OTHER SERVS & BUSNS (2) Photo-Me, Shanks & McEwan, PROPERTY (1) Chelsfield, RETAILERS, FOOD (1) Budgens, RETAILERS, GENERAL (1) Alexon, TEXTILES & APPAREL (2) Haggas (J), Lowe (R.H.), AMERICANS (1) Woolworth.

EQUITY FUTURES AND OPTIONS TRADING

A somewhat featureless trading session in derivatives left the June contract on the FT-SE 100 Index showing a discount of several points to the underlying cash market yesterday, writes Terry Byland.

However, trading volume was moderate, with some 14,900 contracts transacted by the close of after-hours' dealing.

The session opened well, with the Footsie contract supporting a firm start by the underlying stock market and then moving to a good premium even against the day's peak in the cash market. But there was no follow-through and by mid-morning both cash and futures had begun to slide.

It became clear that the initial firmness reflected little more than the backwash of a selling programme in the stock market and there was little further strength in the markets.

By the close of official trading, the June contract had slid back to 3,117 from its morning high point of 3,156. There was no reappearance of the US houses which had made the running on the previous day.

Activity in traded options was similarly subdued, with the number of contracts dealt dipping to 23,741, from just over 28,000 on Monday. The FT-SE 100 option, however, recorded 9,446 lots, compared with 8,470.

■ FT-SE 100 INDEX FUTURES (LIFFE) £25 per full index point (APT)

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Jun	3149.0	3118.0	-14.0	3156.0	3104.0	14094	58934
Sep	3138.0	3135.0	-14.0	3144.0	3138.0	4	705
Dec	-	3145.0	-14.0	-	-	0	0

■ FT-SE MID 250 INDEX FUTURES (LIFFE) £10 per full index point

Jun	3800.0	3780.0	-5.0	3800.0	3770.0	190	2300

■ FT-SE MID 250 INDEX FUTURES (OMLX) £10 per full index point

Jun	3780.0	3780.0		3780.0	3780.0	1	772

All open interest figures are for previous day. † Exact volume shown.

■ FT-SE 100 INDEX OPTION (LIFFE) (*3125) £10 per full index point

	2950 C	2950 P	3000 C	3000 P	3050 C	3050 P	3100 C	3100 P	3150 C	3150 P	3200 C	3200 P	3250 C	3250 P	3300 C	3300 P
Apr	179	8	130½	14	88½	26	65½	42½	32	69½	18	106½	7	150½	3	204
May	195	30	158½	43	122½	57½	94½	79	68½	102½	48½	133	34	167	20½	204
Jun			174½	59	141½	75½	114½	97	88	121	67½	149½	48	180½	35½	216
Jul	223	54½	187	68½	157½	88	129½	109	104	133	83	161½	62	191	40	227
Dec†			261	126			288½	163			181½	211			188	265

Calls 250 Puts 49

■ EURO STYLE FT-SE 100 INDEX OPTION (LIFFE) £10 per full index point

	2925 C	2925 P	2975 C	2975 P	3025 C	3025 P	3075 C	3075 P	3125 C	3125 P	3175 C	3175 P	3225 C	3225 P	3275 C	3275 P
Apr	192½	8	147½	10½	105½	18	69½	33½	42	55½	22	84½	10½	123½	5	167½
May	217½	28½	178½	39	143	53	118	70	81	90½	57½	117	38½	148	26	184
Jun	224½	34½			153	61½			87	104½			57	163½		
Sep	270½	66			203½	97			147	137½			160½	188½		
Dec†	368½	97½			242½	127½			185½	166½			137	214½		

Calls 4,747 Puts 4,747 * Underlying index value. Premiums shown are based on settlement prices. † Long dated expiry months.

■ EURO STYLE FT-SE MID 250 INDEX OPTION (OMLX) £10 per full index point

	3850	3900	3950	4000	4050	4100	4150	4200
Apr	39 100	17 135	8 180	3 225	1 275	325	½	

Calls 0 Puts 0 Settlement prices and volumes are taken at 4.30pm.

TRADING VOLUME

■ **Major Stocks yesterday**

	Vol. 000s	Closing price	Day's change
ASDA Group†	4,700	57¾	+¾
Abbey National†	1,700	470	
Albert Fisher	310	80	
Allied-Lyons†	2,400	567	+1
Anglian Water	581	512	
Argos	91	356½	+1½
Argyll Group†	4,300	250	-2
Arjo Wiggins†	914	292	-3
Assoc. Brit. Foods†	1,000	552	-3
Assoc. Brit. Ports	546	559	-9
BAA†	923	1003	-4
BAT Inds.†	6,900	441	-11
BET	519	128	
BICC	272	436	-3
BOC†	1,200	720	-5
BP†	14,000	356½	-9½
BPB Inds.	1,100	330	-10
BT†	3,700	401	+3
BT (P/Pd)	4,400	283½	+4
BTR†	6,500	366	-8
Bank of Scotland†	2,600	193	+2
Barclays†	2,200	536	-3
Bass†	3,600	533	+9
Blue Circle†	979	322	-6
Booker	788	433	+8
Boots†	2,300	519	-6
Bowater†	1,000	450	+1
Brit. Aerospace†	697	501	-5
British Airways†	809	415	-4
British Gas†	3,900	306½	-½
British Land	714	409	
British Steel†	1,800	141½	+1
Bunzl	2,300	173	+6
Burmah Castrol†	579	825	+8
Burton	1,900	66½	
Cable & Wire†	4,200	445	+3
Cadbury Schweppes†	1,700	471	-5
Calor Group	146	317	+2
Caradon†	522	383	-3
Carlton Comms.†	1,300	905	-4
Coats Viyella†	4,400	235	-2
Comm. Union†	585	580	-3
Cookson	4,200	266	+6
Courtaulds†	619	530	+4
Dalgety	487	445	-2
De La Rue†	572	938	-6
Dixons	1,700	205	-4
Eastern Elect.	637	662	+12
East Midland Elect.	813	828	+10
Eng China Clays	934	487	+4
Enterprise Oil†	1,500	404	-3
Eurotunnel Units	79	529	-4
FKI	1,700	196	-6
Fisons	4,100	194	+1½
Foreign & Col. I.T.	1,000	277	
Forte†	2,900	254	
Gen. Accident†	717	626	
General Elect.†	4,800	291	
Glaxo†	6,300	614	
Glynwed	107	375	
Granada†	2,000	548	
Grand Met.†	2,200	458	
GUS†	1,000	581	
GRE†	2,700	186	
GKN	402	547	
Guinness†	2,200	474	
HSBC (75p shs)†	3,100	764	
Hammerson	1,300	354	
Hanson†	5,500	269¼	
Harrisons Crosfield	652	209	
Hays	2,200	299	
Hillsdown	1,700	172	
IMI	378	343	
ICI†	3,200	813	
Inchcape†	2,100	515	
Johnson Matthey	1,600	604	
Kingfisher†	4,200	567	
Kwik Save	198	591	
Ladbroke†	1,500	188	
Land Securities†	2,300	641	
Laporte	1,100	769	

FT - SE Actuaries Share Indices — The UK Series

	Mar 29	Day's chge%	Mar 28	Mar 25	Mar 24	Year ago	Div. yield%	Earn. yield%	P/E ratio	Xd adj. ytd	Total Return
FT-SE 100	3123.4	-0.2	3129.5	3129.0	3121.7	2861.0	3.89	6.08	19.97	27.92	1156.29
FT-SE Mid 250	3788.8	+0.1	3785.7	3775.2	3793.7	3096.3	3.23	5.31	23.17	24.97	1354.53
FT-SE Mid 250 ex Inv Trusts	3807.4	+0.1	3804.6	3792.2	3811.9	3117.7	3.35	5.72	21.70	25.18	1368.90
FT-SE-A 350	1588.3	-0.1	1590.4	1589.1	1588.3	1417.5	3.73	5.88	20.64	13.32	1203.42
FT-SE SmallCap	1935.07	-0.1	1937.01	1943.29	1959.44	1546.66	2.91	4.07	30.40	10.64	1476.86
FT-SE SmallCap ex Inv Trusts	1910.65	-0.1	1913.07	1919.76	1936.28	1555.09	3.07	4.50	27.90	10.21	1460.43
FT-SE-A ALL-SHARE	1579.99	-0.1	1582.00	1581.24	1581.44	1400.57	3.68	5.75	21.12	12.93	1217.96

■ **FT-SE Actuaries All-Share**

	Mar 29	Day's chge%	Mar 28	Mar 25	Mar 24	Year ago	Div. yield%	Earn. yield%	P/E ratio	Xd adj. ytd	Total Return
10 MINERAL EXTRACTION(18)	2471.87	-0.8	2492.15	2517.54	2524.07	2188.40	3.70	5.00	24.81	30.90	979.13

LONDON EQUITIES

LIFFE EQUITY OPTIONS

Option		Calls Apr	Calls Jul	Calls Oct	Puts Apr	Puts Jul	Puts Oct	Option		Calls May	Calls Aug	Calls Nov	Puts May	Puts Aug	Puts Nov
Allied-Lyons	540	28	39½	50½	4½	24	30½	Hanson	260	15½	20	25	4½	9½	13½
(*556)	580	6	17	29	35	55	60	(*269)	280	5	11	15½	14½	20	24
Argyll	240	15	24½	28	4	16	21	Lasmo	120	12	18½	24	7	12½	16½

RISES AND FALLS YESTERDAY

	Rises	Falls	Same
British Funds	11	57	8
Other Fixed Interest	4	0	11
Mineral Extraction	35	96	74
General Manufactures	126	180	375
Consumer Goods	40	51	101
Services	88	112	317
Utilities	20	13	13
Financials	81	126	182
Investment Trusts	92	57	311
Others	48	47	45
Totals	545	739	1435

Data based on those companies listed on the London Share Service.
It was not possible to publish the Traditional Options table today.

LONDON RECENT ISSUES: EQUITIES

Issue price p	Amt paid up	Mkt. cap (£m.)	1994 High	1994 Low	Stock	Close price p	+/-	Net div.	Div. cov.	Grs yld	P/E net
-	F.P.	31.0	246	241	Abtrust N Dawn C	246		-	-	-	-
135	F.P.	41.2	142	134	Applied Distbn	136		WN3.6	2.4	3.3	16.1
-	F.P.	5.43	12	12	Ashchurch Res	12		-	-	-	-
165	F.P.	459.2	166	158	Beazer Homes	163½	+½	L5.0	2.2	3.8	14.3

LONDON SHARE SERVICE

BANKS

	Notes	Price	+ or -	1993/94 high	low	Mkt Cap£m	Yld Gr's	P/E
ABN Amro Fl		£23⅛	—	£25¼	£18¼	6,495	4.8	ф
ANZ A$		236¼	-4	278¾	130	3,099	3.8	18.6
Abbey National	q♦□	470xd	—	524	345	6,186	3.7	15.8
Allied Irish I£		290xd	—	314	179	1,447	5.0	ф
Anglo Irish I£	M♦□	57	—	78	28	186.2	7.5	10.4
Asahi Y		704¼	-4	844	415	18,358	0.7	—
Banco Bil Viz Pta		£14⅝	+⅛	£17¾	£13⅛	3,448	5.5	8.7
Banco Sant Pta		£31⅝	—	£36	£24⅛	3,513	4.3	12.1
Bank Leumi (UK)		430xd	—	450	325	35.2	5.8	ф
Bk Ireland I£	♦xz□	285	+1	319	177	1,202	4.9	18.8
Bank Scotland	♦†□	195	+2	247	116½	2,229	3.0	28.5
9¼pc Pf		127½	-½	141½	117¾	127.5	9.1	—
9¾pc Pf		134½	-¼	149½	123½	134.5	9.1	—
Barclays	q♦□	536xd	-3	652	362	8,704	3.5	27.4
Dai Ichi Kan Y		£11⅞	-¼	£15⅞	£8⅞	36,926	0.5	65.4
Deutsche DM		£316	+⅛	£345¾	£250½	16,146	1.9	—
Espirito Santo		£21⅛	-⅛	£25⅛	£16½	228.3	3.7	5.1
First Nat Fin	N□	77	—	85	45	127.8	2.4	—
6.3pc Cv Pf		86	—	91	55	8.79	9.2	—
7pc Cv Pf		154	—	171	106	72.1	5.7	—
Fuji Bank Y		1435½	-7¼	1651	876	41,587	0.4	—
HSBC HK	□	785xd	+20	1128	474	13,784	3.7	ф
HSBC (75p Shs)	□	784xd	+17	1113	490	6,453	3.8	ф
Lloyds	N□	566xd	+6	690	492	7,298	4.9	12.0
Mitsubishi Y		£18⅞	+⅛	£19¾	£11⅞	52,421	0.3	—
Mits Tst & Bk Y		1095½	+12½	1027¼	462½	13,096	0.5	16.1
Mitsui Tst & Bk Y		749¾	+9¾	852	374	6,610	0.7	25.9
Nat Aust A$		550½	-6¼	620¼	322	7,236	4.3	13.4
NatWest	q♦□	470xd	+6	634	395	7,611	4.9	12.9
Ottomane FFr		£30½	—	£33	£23¾	152.5	4.8	7.3
Ryl Bk Scotland	♦N□	416	-2	529	207	3,311	3.3	18.8
Sakura Y		£8⅜	-⅛	£11	£5⅞	28,082	0.6	52.9
Sanwa Y		£14⅜	—	£16	£7⅞	41,828	0.4	—
Standard Chartd	q♦□	1046xd	-17	1437	576	2,510	2.9	10.2
7 3/8pc Prf		94½xd	—	108½	92¾	94.5	9.8	—
Sumitomo Y		£13⅜	-⅛	£16¼	£8⅞	42,882	0.4	29.2
Sumitomo Tst Y		980¼	-10½	1097½	437½	11,844	0.6	75.3
TSB	N□	219xd	+1	291	145½	3,358	4.4	14.9
Tokai Y		[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

BREWERIES

BUILDING & CONSTRUCTION

BUILDING MATS. & MERCHANTS

BUILDING MATS. & MERCHANTS - Cont.

CHEMICALS

DISTRIBUTORS

DIVERSIFIED INDUSTRIALS

ELECTRICITY

ELECTRONIC & ELECTRICAL EQPT

ELECTRONIC & ELECTRICAL EQPT - Cont.

ENGINEERING

ENGINEERING, VEHICLES

ENGINEERING, VEHICLES - Cont.

EXTRACTIVE INDUSTRIES

FOOD MANUFACTURERS

GAS DISTRIBUTION

HEALTH CARE

HEALTH CARE - Cont.

HOUSEHOLD GOODS

INSURANCE

INVESTMENT TRUSTS

INVESTMENT TRUSTS - Cont.

INVESTMENT TRUSTS - Cont.

	Notes	Price	+ or -	1993/94 high	low	Yld Gr's	NAV	Dis or Pm(-)
Otra Conv	$N	95	+1	111	67	11.7	105.9	10.3
Zero Pf		214½	+½	219	163	–	–	–
Overseas Inv	$N☐	367	-1	404	249	1.1	423.1	13.3
Warrants		202	—	241	93	–	–	–
Pacific Assets	$N☐	459xd	+3	547	265	0.3	504.2	9.0
Warrants		361	+2	545	187	–	–	–
Pac Horizon	$☐	43	—	55	29	0.4	49.0	12.2
Warrants	☐	6½	+½	14	6	–	–	–
[illegible] Intl	$N	190	—	208	140	0.3	216.9	12.4
Warrants		80	—	93	80	–	–	–
Cv Ln '95/97		83	—	88	80	–	–	–
Paribas French	☐	134xd	—	149	98	0.9	140.5	4.6
Perpetual Japan	☐	110	-1	119	83	–	108.2	-1.6
Warrants	☐	69	-1	88	37	–	–	–
Personal Assets	†	992½	—	994	776½	[illegible]	[illegible]	-4.1
Pilot Inv	Z☐	140	—	153	98	0.4	135.0	-3.8
Warrants	☐	57	—	69	21	–	–	–
C	☐	110	—	117	100	–	108.5	-1.4
Primadona		269xd	—	285	157	2.1	318.1	15.7
Ptarmigan Intl	$☐	242	-2	*276	160	0.4	258.9	6.5
Warrants		87	—	140	38	–	–	–
RIT Capital	☐	174	—	189	100	0.8	219.0	20.5
2½pc Cv Ln 2000		£174xd	—	£186½	£100½	1.4	–	–
Radiotrust	☐	66	—	68	47	–	87.1	-22.0
Rights & Iss Inc		155xd	—	164	114	7.8	–	–
Cap		468xd	—	605	308	2.2	530.7	14.3
Riv & Merc Am Inc		112xd	—	121	106	8.7	–	–
Cap	☐	34	—	38	27	–	45.8	25.8
Warrants		13½	—	17	11	–	–	–
Riv & Mer Ext	N☐	139	—	147	87	7.8	124.8	-10.2
Warrants		43	+1	49	13	–	–	–
Zero Div Pf		114½	—	118½	108	–	–	–

[illegible]

INVESTMENT COMPANIES

[illegible]

LEISURE & HOTELS

[illegible]

LEISURE & HOTELS - Cont.

[illegible]

LIFE ASSURANCE

[illegible]

MEDIA

[illegible]

MERCHANT BANKS

[illegible]

OIL EXPLORATION & PRODUCTION

[illegible]

OIL, INTEGRATED

[illegible]

OTHER FINANCIAL

[illegible]

OTHER SERVICES & BUSINESSES

[illegible]

PHARMACEUTICALS

[illegible]

PRINTING, PAPER & PACKAGING

[illegible]

PROPERTY

[illegible]

RETAILERS, FOOD

[illegible]

RETAILERS, GENERAL

[illegible]

SPIRITS, WINES & CIDERS

[illegible]

SUPPORT SERVICES

[illegible]

TELECOMMUNICATIONS

[illegible]

TEXTILES & APPAREL

[illegible]

TOBACCO

[illegible]

TRANSPORT

[illegible]

TRANSPORT - Cont.

[illegible]

WATER

[illegible]

AMERICANS

[illegible]

CANADIANS

[illegible]

SOUTH AFRICANS

	Notes	Price	+ or -	1993/94 high	low	Mkt Cap£m	Yld Gr's	P/E
Anglo Am Ind		£22½	—	£23½	£7½	1,344	3.3	ϕ
Barlow		94½	—	95½	53½	610.8	7.9	7.5
Gold Fields SA R		£13½	-⅛	£18	£7¼	1,332	2.9	23.2
NK Props	a	80	—	97	68	3.82	9.9	37.0
SASOL	♥	315	+3	369	215	1,704	4.9	–
SA Brews		£11⅝	-⅛	£15⅛	£7¼	[illegible]	2.4	19.2
Tiger Oats		663	—	836	513	868.0	2.5	14.0
Tongaat-Hulett	†	381	—	399	212	412.4	2.7	18.4

GUIDE TO LONDON SHARE SERVICE

Prices for the London Share Service delivered by Extel Financial, a member of the Financial Times Group.

Company classifications are based on those used for the FT-SE Actuaries Share Indices.

Closing mid-prices are shown in pence unless otherwise stated. Highs and lows are based on intra-day mid- prices.

Where stocks are denominated in currencies other than sterling, this is indicated after the name.

Symbols referring to dividend status appear in the notes column daily as a guide to yields and P/E ratios. Dividends and Dividend covers are published on Monday.

Market capitalisation shown is calculated separately for each line of stock quoted.

Estimated price/earnings ratios are based on latest annual reports and accounts and, where possible, are updated on interim figures. P/Es are calculated on "net" distribution basis, earnings per share being computed on profit after taxation, excluding exceptional profits/losses and unrelieved ACT where applicable. Yields are based on mid-prices, are gross, adjusted for a dividend tax credit of 20 per cent and allow for value of declared distribution and rights.

Estimated Net Asset Values (NAVs) are shown for Investment Trusts, in pence per share, along with the percentage discounts (Dis) or premiums (Pm -) to the current closing share price. The NAV basis assumes prior charges at par value, convertibles converted and warrants exercised if dilution occurs.

☐ Indicates the most actively traded stocks. This includes UK stocks where transactions and prices are published continuously through the Stock Exchange Automated Quotation system (SEAQ) and non-UK stocks through the SEAQ International system.
- Highs and lows marked thus have been adjusted to allow for rights issues for cash
† Interim since increased or resumed
‡ Interim since reduced, passed or deferred
ϕ Figures or report awaited
♦ Not officially UK listed; dealings permitted under rule 535(4)(a)
♣ Free annual/interim report available, see details below.
✱ USM; not listed on Stock Exchange and company not subjected to same degree of regulation as listed securities.
‡‡ Not officially UK listed; dealings permitted under Rule 535(2)
§ Price at time of suspension
¶ Indicated dividend yield after pending scrip and/or rights issue.
♦ Merger bid or reorganisation in progress
§ Forecast dividend yield; p/e based on earnings updated by latest interim statement.
♠ Unregulated collective investment scheme.

a Yield based on annualised dividend
b Figures based on prospectus or other official estimates.
c Cents.
f Flat yield.
g Assumed dividend yield after rights issue.
h Assumed dividend yield after scrip issue.
n Rights issue pending
q Earnings based on preliminary figures.
s Dividend yield excludes a special payment.
t Indicated dividend yield, p/e ratio based on latest annual earnings.
u Forecast, or estimated annualised dividend yield, p/e based on previous year's earnings
v Not subject to ACT.
z Dividend yield includes a special payment.
F Yield based on prospectus or other official estimates for 1994-95.
G Assumed yield after pending scrip and/or rights issue.
H Yield based on prospectus or other official estimates for 1993.
K Yield based on prospectus or other official estimates for 1994
L Estimated annualised yield, p/e based on latest annual earnings.
M Yield based on prospectus or other official estimates for 1993-94.
N Figures based on IIMR 'Headline Earnings'
P Figures based on prospectus or other official estimates for 1994.
R Forecast annualised yield, p/e based on prospectus or other official estimates.
T Figures assumed.
W Pro forma figures.
Z Dividend yield to date.

Abbreviations:
xd ex dividend;
xc ex scrip issue;
xr ex rights;
xa ex all;
xt ex capital distribution.

FT MANAGED FUNDS SERVICE

● FT Cityline Unit Trust Prices are available over the telephone. Call the FT Cityline Help Desk on (071) 873 4378 for more details.

AUTHORISED UNIT TRUSTS

[illegible]

Guide to pricing of Authorised Unit Trusts

Compiled with the assistance of Lautro §§

INITIAL CHARGE: Charge made on sale of units. Used to defray marketing and administrative costs, including commission paid to intermediaries. This charge is included in the price of units.

OFFER PRICE: Also called issue price. The price at which units are bought by investors.

BID PRICE: Also called redemption price. The price at which units are sold back by investors.

CANCELLATION PRICE: The minimum redemption price. The maximum spread between the offer and bid prices is determined by a formula laid down by the government. In practice, most unit trust managers quote a much narrower spread. As a result, the bid price is often set above the cancellation price. However, the bid price might be moved to the cancellation price by the managers at any time, usually in circumstances in which there is a large excess of sellers of units over buyers.

TIME: The time shown alongside the fund manager's name is the time of the unit trust's valuation point unless another time is indicated by the symbol alongside the individual unit trust name. The symbols are as follows: (♥) - 0001 to 1100 hours; (♣) - 1101 to 1400 hours; (♦) - 1401 to 1700 hours; (♠) - 1701 to midnight. Daily dealing prices are set on the basis of the valuation point, a short period of time may elapse before prices become available.

HISTORIC PRICING: The letter H denotes that the managers will normally deal on the price set on the most recent valuation. The prices shown are the latest available before publication and may not be the current dealing levels because of an intervening portfolio revaluation or a switch to a forward pricing basis. The managers must deal at a forward price on request, and may move to forward pricing at any time.

FORWARD PRICING: The letter F denotes that the managers deal at the price to be set on the next valuation. Investors can be given no definite price in advance of the purchase or sale being carried out. The prices appearing in the newspaper are the most recent provided by the managers.

SCHEME PARTICULARS AND REPORTS: The most recent report and scheme particulars can be obtained free of charge from fund managers.

Other explanatory notes are contained in the last column of the FT Managed Funds Service.

§§ Life Assurance and Unit Trust Regulatory Organisation, Centre Point, 103 New Oxford Street, London WC1A 1QH Tel: 071-379-0444.

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OTHER UK UNIT TRUSTS

INSURANCES

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OFFSHORE INSURANCES

MANAGEMENT SERVICES

OFFSHORE AND OVERSEAS

BERMUDA (SIB RECOGNISED)

GUERNSEY (REGULATED)(**)

GUERNSEY (SIB RECOGNISED)

IRELAND (SIB RECOGNISED)

IRELAND (REGULATED)(**)

ISLE OF MAN (SIB RECOGNISED)

ISLE OF MAN (REGULATED)(**)

JERSEY (SIB RECOGNISED)

JERSEY (REGULATED)(**)

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LUXEMBOURG (SIB RECOGNISED)

LUXEMBOURG (REGULATED)(**)

SWITZERLAND (SIB RECOGNISED)

OTHER OFFSHORE FUNDS

MANAGED FUNDS NOTES

CURRENCIES AND MONEY

MARKETS REPORT

All eyes on Italy

Traders kept a wary eye on Italy yesterday as markets sought to assess the implications of the election victory of the right wing Freedom Alliance, *writes Philip Gawith.*

Trade was subdued following the earlier rise in the currency based on exit polls. After appreciating by more than ten lira on Monday to L973.4 against the D-Mark, the Italian currency had a quiet day finishing marginally firmer at L977.9.

That one of the political groupings achieved a victory was regarded as positive, but concern remains about whether the Alliance can form a stable government.

Elsewhere in Europe, tighter money market conditions induced a measure of pessimism about the scope for a cut in the German repo rate today. The D-Mark finished slightly firmer in London against the French franc, at FFr3.424 from FFr3.422. It was weaker against the Spanish peseta, closing at Pta82.08 from Pta82.15.

Sterling, meanwhile, fell to its lowest levels this year. The trade weighted index finished at 79.8 from 80.2. The UK currency was hit by the government's climbdown over voting rights in the EU. It closed in London at DM2.4889 against the D-Mark from DM2.5035. It was also lower against the weaker dollar, finishing at $1.4927 from $1.4966.

■ With Italy apparently set to have a Berlusconi government, the question now occupying markets is whether it will be a sustainable one. The Forza Italia leader will have to settle differences between his two squabbling allies - the separatist Northern league and the neo-fascist National Alliance.

Although there is broad agreement among analysts that the lira is undervalued and the economic outlook good, stable government is seen as a pre-requisite for optimism. A period of uncertainty, however, lies ahead as the victors attempt to form a government before parliament reconvenes on April 15.

Mr Stephen Yorke, chief European analyst at Chase Manhattan, is pessimistic about the outlook. He says the result is "what everyone feared. No clear-cut winner who can govern alone over the medium-term, but rather a populist whose ability to govern within a coalition will be in direct proportion to the havoc he wreaks on Italy's budget."

The Chase analyst predicts that the Lira could fall to L1,000 against the D-Mark by April 15 and says it is difficult to be positive after that. He believes the only way the coalition will be kept together is by offering "fiscal sweeties" to the South, and tax cuts to the North. "The budget will be hit at both ends," he says.

Other are less downbeat. Lehman Brothers, for example, see the lira finishing the year at L920.

■ Sterling's weakness can be traced to a host of factors including interest rate uncertainty, tax increases casting doubt on the sustainability of economic recovery, and poor trade figures.

A further factor which has reasserted itself is political risk. The compromise over EU voting procedures appears to have further weakened the authority of the prime minister Mr John Major.

Mr Adrian Cunningham, senior currency economist at UBS, commented: "There is growing concern that both wings of the Tory party are calling into question John Major's leadership qualities."

There is little expectation of a near-term rate cut emerging from today's monthly monetary meeting between the chancellor Mr Kenneth Clarke and Mr Eddie George, governor of the Bank of England.

The futures market continues to provide a very bearish view on interest rates. The June short sterling contract fell seven basis points to 94.55. The contract has fallen by 35 basis points in the last three weeks.

Over the same period the December future has lost 70 points to 93.96, implying base rates of over 6 per cent at the year end. The December 1995 contract is discounting an 8 per cent base rate.

Many analysts believe the market is too pessimistic and predict that subdued inflation will allow a further rate cut.

In the discount market the Bank of England provided £915m of assistance after forecasting a shortage of £900m.

■ Tight end of month conditions caused German call money rates to jump from 5.70/5.75 per cent to 6.25/6.75 per cent as banks were forced to borrow at the Lombard window. This dampened hopes for any substantial fall in the repo rate at today's weekly tender.

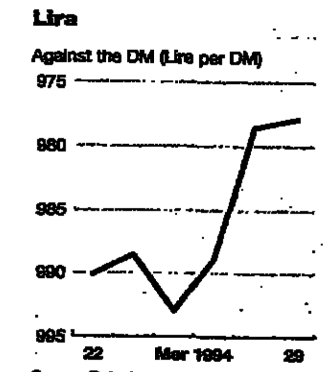
Banks are likely to have been more cautious in their bidding for fear the Bundesbank would not allot them the necessary amount to meet their month end requirements.

■ The dollar was weaker again, finishing half a pfennig down at DM1.6675 from DM1.6728 against the D-Mark. It also finished lower against the yen, closing at Y103.600 from Y104.620.

Analysts said yen strength was the result of capital repatriation accompanying the fiscal year end. Further evidence of government opposition to numerical trade targets also renewed fears that the US government would try and talk up the Japanese currency.

Lira

Against the DM (Lire per DM)



Source: Datastream

■ Pound in New York

Mar 29	—Latest—	— Prev. close —
£ spot	1.4860	1.4960
1 mth	1.4842	1.4940
3 mth	1.4807	1.4905
1 yr	1.4723	1.4828

■ OTHER CURRENCIES

Mar 29	£	$
Hungary	152.513 - 152.734	102.200 - 102.300
Iran	2614.00 - 2620.00	1748.00 - 1750.00
Kuwait	0.4431 - 0.4443	0.2969 - 0.2976
Poland	32885.8 - 32901.2	22037.0 - 22037.0
Russia	2615.20 - 2634.62	1752.00 - 1765.00
U.A.E.	5.4804 - 5.4834	3.6715 - 3.6735

POUND SPOT FORWARD AGAINST THE POUND

Mar 29		Closing mid-point	Change on day	Bid/offer spread	Day's Mid high	low	One month Rate	%PA	Three months Rate	%PA	One year Rate	%PA	Bank of Eng. Index
Europe													
Austria	(Sch)	17.5061	-0.1256	002 - 159	17.6580	17.4750	17.5043	0.3	17.4987	0.2	-	-	114.1
Belgium	(BFr)	51.2807	-0.3011	545 - 069	51.6408	51.2225	51.3257	-1.1	51.4007	-0.9	51.6007	-0.6	115.2
Denmark	(DKr)	9.8151	-0.0456	113 - 189	9.8566	9.8045	9.8252	-1.2	9.8385	-1.0	9.8463	-0.3	114.7
Finland	(FM)	8.2197	-0.0856	093 - 300	8.3160	8.2000	-	-	-	-	-	-	81.0
France	(FFr)	8.5223	-0.0431	180 - 265	8.5688	8.5090	8.529	-0.9	8.5427	-1.0	8.5586	-0.4	108.2
Germany	(DM)	2.4889	-0.0146	878 - 900	2.5088	2.4843	2.4896	-0.4	2.4912	-0.4	2.486	0.1	123.7
Greece	(Dr)	366.670	-1.195	360 - 979	370.185	366.014	-	-	-	-	-	-	-
Ireland	(I£)	1.0369	+0.0006	357 - 380	1.0385	1.0337	1.0376	-0.8	1.0389	-0.8	1.0438	-0.7	102.5
Italy	(L)	2434.18	-15.83	262 - 553	2449.18	2429.84	2440.38	-3.1	2453.28	-3.1	2498.98	-2.7	76.8
Luxembourg	(LFr)	51.2807	-0.3011	545 - 069	51.6408	51.2225	51.3257	-1.1	51.4007	-0.9	51.6007	-0.6	115.2
Netherlands	(Fl)	2.7990	-0.0169	976 - 004	2.8184	2.7940	2.7994	-0.2	2.7993	0.0	2.7969	0.1	118.7
Norway	(NKr)	10.8480	-0.0549	439 - 520	10.9107	10.8350	10.8423	0.6	10.8549	-0.3	10.846	0.0	85.1
Portugal	(Es)	257.333	-1.579	123 - 543	259.102	257.000	258.308	-4.5	260.253	-4.5	-	-	-
Spain	(Pta)	204.277	-1.436	191 - 362	205.610	204.031	204.782	-3.0	205.767	-2.9	209.227	-2.4	85.3
Sweden	(SKr)	11.7618	-0.0389	534 - 701	11.8383	11.7418	11.7826	-2.1	11.8188	-1.9	11.9378	-1.5	78.8
Switzerland	(SFr)	2.1186	-0.0083	173 - 196	2.1294	2.1137	2.1169	1.0	2.1126	1.2	2.086	1.4	117.8
UK	(£)	-	-	-	-	-	-	-	-	-	-	-	79.8
Ecu	-	1.2925	-0.007	918 - 931	1.3006	1.2915	1.2937	-1.1	1.2957	-1.0	1.2989	-0.5	-
SDR†	-	0.940521	-	-	-	-	-	-	-	-	-	-	-
Americas													
Argentina	(Peso)	1.4912	-0.0055	893 - 930	1.5006	1.4890	-	-	-	-	-	-	-
Brazil	(Cr)	1335.87	+19.72	555 - 619	1339.00	1316.00	-	-	-	-	-	-	-
Canada	(C$)	2.0536	-0.0018	527 - 544	2.0818	2.0520	2.0525	0.6	2.0523	0.3	2.0572	-0.2	87.3
Mexico	(New Peso)	5.0077	-0.0161	992 - 162	5.0277	4.9990	-	-	-	-	-	-	-
USA	($)	1.4927	-0.0039	923 - 930	1.5006	1.4910	1.4906	1.5	1.4873	1.4	1.4787	0.9	65.6
Pacific/Middle East/Africa													
Australia	(A$)	2.1147	+0.0143	134 - 159	2.1225	2.1073	2.1132	0.9	2.1108	0.7	2.1089	0.3	-
Hong Kong	(HK$)	11.5311	-0.0301	278 - 345	11.5932	11.5190	11.5181	1.4	11.5126	0.6	11.4638	0.6	-
India	(Rs)	46.8228	-0.1239	060 - 391	47.0760	46.7780	-	-	-	-	-	-	-
Japan	(Y)	154.639	-1.936	528 - 750	156.160	154.350	154.279	2.8	153.439	3.1	149.904	3.1	187.1
Malaysia	(M$)	4.0100	-0.0169	076 - 124	4.0403	4.0070	-	-	-	-	-	-	-
New Zealand	(NZ$)	2.6403	+0.0085	380 - 425	2.6461	2.6300	2.6432	-1.3	2.6475	-1.1	2.6561	-0.6	-
Philippines	(Peso)	41.1599	-0.1069	890 - 306	41.5640	40.8890	-	-	-	-	-	-	-
Saudi Arabia	(SR)	5.5977	-0.016	961 - 993	5.6282	5.5918	-	-	-	-	-	-	-
Singapore	(S$)	2.3412	-0.016	399 - 425	2.3574	2.3391	-	-	-	-	-	-	-
S Africa (Com.)	(R)	5.1471	-0.014	447 - 494	5.1725	5.1432	-	-	-	-	-	-	-
S Africa (Fin.)	(R)	7.1200	+0.0148	108 - 291	7.1602	7.1095	-	-	-	-	-	-	-
South Korea	(Won)	1204.12	-5.29	369 - 455	1210.70	1202.70	-	-	-	-	-	-	-
Taiwan	(T$)	39.4060	-0.1042	967 - 152	39.6200	39.3600	-	-	-	-	-	-	-
Thailand	(Bt)	37.6521	-0.1371	358 - 684	37.8500	37.6180	-	-	-	-	-	-	-

†SDR rate for Mar 28. Bid/offer spreads in the Pound Spot table show only the last three decimal places. Forward rates are not directly quoted to the market but are implied by current interest rates. Sterling index calculated by the Bank of England. Base average 1985 = 100.Bid, Offer and Mid-rates in both this and the Dollar Spot tables derived from THE WM/REUTERS CLOSING SPOT RATES. Some values are rounded by the F.T.

DOLLAR SPOT FORWARD AGAINST THE DOLLAR

Mar 29		Closing mid-point	Change on day	Bid/offer spread	Day's mid high	low	One month Rate	%PA	Three months Rate	%PA	One year Rate	%PA	J.P Morgan index
Europe													
Austria	(Sch)	11.7295	-0.053	270 - 320	11.7650	11.7220	11.748	-1.9	11.7767	-1.6	11.7882	-0.5	103.2
Belgium	(BFr)	34.3555	-0.1105	460 - 650	34.4500	34.3280	34.4365	-2.8	34.5505	-2.3	34.8155	-1.3	104.5
Denmark	(DKr)	6.5756	-0.0132	746 - 766	6.5933	6.5624	6.5913	-2.9	6.6158	-2.4	6.6586	-1.3	103.4
Finland	(FM)	5.5068	-0.0426	011 - 124	5.5540	5.4961	5.5136	-1.5	5.5213	-1.1	5.5331	-0.5	75.5
France	(FFr)	5.7095	-0.0138	080 - 110	5.7190	5.7025	5.722	-2.6	5.7445	-2.5	5.7865	-1.3	104.5
Germany	(D)	1.6675	-0.0053	671 - 678	1.6734	1.6650	1.6705	-2.2	1.6747	-1.7	1.6802	-0.8	105.0
Greece	(Dr)	245.650	-0.15	500 - 800	247.450	245.350	248.85	-16.1	256.4	-17.6	283.9	-15.6	70.4
Ireland	(I£)	1.4396	-0.0046	383 - 408	1.4487	1.4402	1.4365	2.5	1.4311	2.3	1.4162	1.6	-
Italy	(L)	1630.78	-6.07	025 - 130	1637.70	1624.00	1637.23	-4.7	1649.68	-4.6	1688.53	-3.6	77.6
Luxembourg	(LFr)	34.3555	-0.1105	460 - 650	34.4500	34.3280	34.4365	-2.8	34.5505	-2.3	34.8155	-1.3	104.5
Netherlands	(Fl)	1.8752	-0.0063	747 - 757	1.8808	1.8706	1.8781	-1.9	1.8824	-1.5	1.8878	-0.7	103.9
Norway	(NKr)	7.2676	-0.0175	666 - 686	7.2880	7.2490	7.2803	-2.1	7.3036	-2.0	7.3426	-1.0	95.0
Portugal	(Es)	172.400	-0.6	300 - 500	172.850	172.250	173.315	-6.4	174.93	-6.9	180.075	-4.5	92.7
Spain	(Pta)	136.855	-0.6	830 - 890	137.350	136.750	137.385	-4.6	138.365	-4.4	141.455	-3.4	80.4
Sweden	(SKr)	7.8798	-0.0052	760 - 835	7.9073	7.8446	7.9048	-3.8	7.9476	-3.4	8.0706	-2.4	81.2
Switzerland	(SFr)	1.4193	-0.0019	188 - 198	1.4220	1.4149	1.4201	-0.7	1.4205	-0.3	1.4118	0.5	104.1
UK	(£)	1.4927	-0.0039	923 - 930	1.5006	1.4910	1.4906	1.5	1.4873	1.4	1.4787	0.9	88.8
Ecu	-	1.1549	+0.0032	546 - 552	1.1570	1.1526	1.1523	2.8	1.1478	2.5	1.1389	1.4	-
SDR†	-	1.40702	-	-	-	-	-	-	-	-	-	-	-
Americas													
Argentina	(Peso)	0.9990	-0.0011	980 - 000	1.0001	0.9960	-	-	-	-	-	-	-
Brazil	(Cr)	894.965	+15.54	960 - 970	894.980	892.500	-	-	-	-	-	-	-
Canada	(C$)	1.3758	+0.0024	755 - 760	1.3770	1.3740	1.377	-1.0	1.3801	-1.2	1.3908	-1.1	83.9
Mexico	(New Peso)	3.3549	-0.0019	500 - 598	3.3600	3.3495	3.3559	-0.4	3.3577	-0.3	3.3661	-0.3	-
USA	($)	-	-	-	-	-	-	-	-	-	-	-	100.5
Pacific/Middle East/Africa													
Australia	(A$)	1.4167	+0.0133	162 - 172	1.4195	1.4077	1.4179	-1.1	1.4226	-1.7	1.4332	-1.2	86.7
Hong Kong	(HK$)	7.7252	+0.0002	247 - 257	7.7265	7.7240	7.7282	-0.5	7.7342	-0.5	7.7589	-0.4	-
India	(Rs)	31.3688	-	650 - 725	31.3725	31.3650	31.4338	-2.5	31.5688	-2.6	-	-	-
Japan	(Y)	103.600	-1.02	550 - 650	104.200	103.300	103.505	1.1	103.185	1.6	101.37	2.2	147.0
Malaysia	(M$)	2.6865	-0.0055	855 - 875	2.6960	2.6780	2.6795	3.1	2.664	3.4	2.7265	-1.5	-
New Zealand	(NZ$)	1.7688	+0.0102	677 - 699	1.7700	1.7555	1.77	-0.8	1.7745	-1.3	1.7964	-1.6	-
Philippines	(Peso)	27.5750	-	000 - 500	27.7500	27.4000	-	-	-	-	-	-	-
Saudi Arabia	(SR)	3.7502	-0.0001	500 - 504	3.7505	3.7495	3.7509	-0.2	3.7532	-0.3	3.7647	-0.4	-
Singapore	(S$)	1.5685	-0.0065	680 - 690	1.5780	1.5675	1.5679	0.5	1.5674	0.3	1.566	0.2	-
S Africa (Com.)	(R)	3.4483	-0.0002	475 - 490	3.4515	3.4460	3.4648	-5.7	3.4908	-4.9	3.5838	-3.9	-
S Africa (Fin.)	(R)	4.7700	+0.0225	650 - 750	4.7750	4.7475	4.804	-8.6	4.864	-7.9	-	-	-
South Korea	(Won)	806.700	-1.4	600 - 800	808.200	806.500	809.7	-4.5	813.2	-3.2	831.7	-3.1	-
Taiwan	(T$)	26.4000	-	000 - 000	26.4100	26.4000	26.4655	-3.0	26.598	-2.5	-	-	-
Thailand	(Bt)	25.2250	-0.025	200 - 300	25.2400	25.2100	25.305	-3.8	25.43	-3.3	25.95	-2.9	-

†SDR rate for Mar 28. Bid/offer spreads in the Dollar Spot table show only the last three decimal places. Forward rates are not directly quoted to the market but are implied by current interest rates. UK, Ireland & ECU are quoted in US currency. J.P. Morgan indices shown for Mar 28. Base average 1990=100

CROSS RATES AND DERIVATIVES

EXCHANGE CROSS RATES

Mar 29		BFr	DKr	FFr	DM	I£	L	Fl	NKr	Es	Pta	SKr	SFr	£	C$	$	Y	Ecu
Belgium	(BFr)	100	19.14	16.62	4.854	2.022	4746	5.458	21.16	501.8	398.4	22.93	4.132	1.950	4.005	2.911	301.5	2.521
Denmark	(DKr)	52.25	10	8.683	2.536	1.057	2480	2.852	11.05	262.1	208.2	11.98	2.159	1.019	2.093	1.521	157.5	1.317
France	(FFr)	60.17	11.52	10	2.921	1.217	2856	3.284	12.73	301.9	239.7	13.80	2.487	1.173	2.410	1.752	181.4	1.517
Germany	(DM)	20.60	3.943	3.424	1	0.417	977.9	1.125	4.359	103.4	82.08	4.725	0.851	0.402	0.825	0.600	62.11	0.519
Ireland	(I£)	49.45	9.465	8.218	2.400	1	2347	2.699	10.46	248.1	197.0	11.34	2.043	0.964	1.981	1.440	149.1	1.247
Italy	(L)	2.107	0.403	0.350	0.102	0.043	100.	0.115	0.446	10.57	8.394	0.483	0.087	0.041	0.084	0.061	6.352	0.053
Netherlands	(Fl)	18.32	3.507	3.045	0.889	0.370	869.6	1	3.876	91.93	72.99	4.202	0.757	0.357	0.734	0.533	55.23	0.462
Norway	(NKr)	47.28	9.046	7.854	2.294	0.956	2243	2.580	10	237.1	188.3	10.84	1.953	0.922	1.893	1.376	142.5	1.192
Portugal	(Es)	19.93	3.815	3.312	0.967	0.403	946.0	1.088	4.217	100.	79.40	4.571	0.824	0.389	0.798	0.580	60.09	0.503
Spain	(Pta)	25.10	4.804	4.171	1.218	0.508	1191	1.370	5.311	125.9	100.	5.756	1.037	0.489	1.005	0.731	75.67	0.633
Sweden	(SKr)	43.61	8.346	7.247	2.116	0.882	2070	2.380	9.226	218.8	173.7	10	1.802	0.850	1.747	1.270	131.5	1.099
Switzerland	(SFr)	24.20	4.632	4.022	1.175	0.489	1149	1.321	5.120	121.4	96.41	5.550	1	0.472	0.969	0.705	72.96	0.610
UK	(£)	51.28	9.815	8.522	2.489	1.037	2434	2.799	10.85	257.3	204.3	11.76	2.119	1	2.054	1.493	154.6	1.293
Canada	(C$)	24.97	4.778	4.149	1.212	0.505	1185	1.363	5.282	125.3	99.46	5.725	1.032	0.487	1	0.727	75.27	0.630
US	($)	34.35	6.574	5.708	1.667	0.695	1630	1.875	7.267	172.3	136.8	7.877	1.419	0.670	1.376	1	103.5	0.866
Japan	(Y)	331.7	63.49	55.12	16.10	6.708	15744	18.10	70.18	1664	1321	76.07	13.71	6.468	13.29	9.657	1000.	8.364
Ecu		39.66	7.591	6.591	1.925	0.802	1882	2.165	8.391	199.0	158.0	9.095	1.639	0.773	1.589	1.155	119.6	1

Yen per 1,000; Danish Kroner, French Franc, Norwegian Kroner and Swedish Kronor per 10; Belgian Franc, Escudo, Lira and Peseta per 100.

• EMS EUROPEAN CURRENCY UNIT RATES

Mar 29	Ecu cen. rates	Rate against Ecu	Change on day	% +/- from cen. rate	% spread v weakest	Div. Ind.
Netherlands	2.19672	2.16793	-0.00042	-1.31	4.72	-
Belgium	40.2123	39.7130	-0.0389	-1.24	4.65	9
Germany	1.94964	1.92782	+0.00021	-1.12	4.52	-
Ireland	0.808628	0.800694	+0.002415	-0.98	4.37	7
France	6.53883	6.59522	-0.00397	0.86	2.47	-7
Denmark	7.43679	7.59578	+0.00265	2.14	1.19	-15
Spain	154.250	158.204	-0.135	2.56	0.77	-18
Portugal	192.854	199.313	-0.04	3.35	0.00	-22
NON ERM MEMBERS						
Greece	264.513	283.670	+0.503	7.24	-3.63	-
Italy	1793.19	1883.91	-6.92	5.06	-1.63	-
UK	0.786749	0.773169	+0.003212	-1.73	5.16	-

Ecu central rates set by the European Commission. Currencies are in descending relative strength. Percentage changes are for Ecu; a positive change denotes a weak currency. Divergence shows the ratio between two spreads: the percentage difference between the actual market and Ecu central rates for a currency, and the maximum permitted percentage deviation of the currency's market rate from its Ecu central rate.
(17/9/92) Sterling and Italian Lira suspended from ERM. Adjustment calculated by the Financial Times.

■ D-MARK FUTURES (IMM) DM 125,000 per DM

	Open	Latest	Change	High	Low	Est. vol	Open int.
Jun	0.5956	0.5972	+0.0017	0.5978	0.5953	30,912	101,012
Sep	0.5945	0.5957	-	0.5957	0.5945	85	2,589
Dec	-	0.5930	-0.0022	-	-	6	115

■ JAPANESE YEN FUTURES (IMM) Yen 12.5 per Yen 100

	Open	Latest	Change	High	Low	Est. vol	Open int.
Jun	0.9634	0.9686	+0.0050	0.9710	0.9618	18,755	48,874
Sep	0.9720	0.9743	+0.0061	0.9750	0.9710	181	1,947
Dec	-	0.9795	-	0.9795	-	5	404

■ PHILADELPHIA SE £/$ OPTIONS £31,250 (cents per pound)

Strike Price	CALLS Apr	May	Jun	PUTS Apr	May	Jun
1.400	8.91	8.76	8.85	-	-	0.16
1.425	6.47	6.44	6.50	-	0.13	0.45
1.450	4.04	4.28	4.55	0.02	0.46	0.97
1.475	1.94	2.53	2.93	0.36	1.16	1.83
1.500	0.57	1.26	1.77	1.48	2.41	3.06
1.525	0.08	0.53	0.97	3.44	4.14	4.74

Previous day's vol., Calls 4,090 Puts 3,109 . Prev. day's open int., Calls 482,397 Puts 413,951

■ SWISS FRANC FUTURES (IMM) SFr 125,000 per SFr

	Open	Latest	Change	High	Low	Est. vol	Open int.
Jun	0.7023	0.7053	+0.0021	0.7063	0.7023	12,919	36,290
Sep	-	0.7060	-	0.7060	-	6	275
Dec	-	0.7075	-	0.7075	-	3	45

■ STERLING FUTURES (IMM) £62,500 per £

	Open	Latest	Change	High	Low	Est. vol	Open int.
Jun	1.4918	1.4910	-0.0008	1.4948	1.4906	4,655	27,741
Sep	-	1.4860	-	-	1.4860	41	653
Dec	-	1.4840	-	-	1.4840	4	35

WORLD INTEREST RATES

MONEY RATES

March 29	Over night	One month	Three mths	Six mths	One year	Lomb. inter.	Dis. rate	Repo rate
Belgium	-	6⅜	6¼	6⅜	6⅛	7.40	5.00	-
week ago	-	6⅜	6⅜	6⅛	6⅛	7.40	5.00	-
France	6¼	6¼	6¼	6⅛	6⅛	6.00	-	7.75
week ago	6¼	6¼	6¼	6⅛	5⅝	6.10	-	7.75
Germany	6.50	5.80	5.70	5.60	5.43	6.75	5.25	5.80
week ago	5.75	5.80	5.75	5.58	5.38	6.75	5.25	5.88
Ireland	8¼	6	6	6	6	-	-	6.75
week ago	6⅜	6	6⅛	6⅛	6⅛	-	-	6.75
Italy	8¾	8⅜	8⅜	8⅜	8⅜	-	8.00	8.40
week ago	8½	8⅜	8¾	8¾	8¾	-	8.00	8.92
Netherlands	5.53	5.50	5.36	5.33	5.32	-	5.25	-
week ago	5.53	5.50	5.35	5.26	5.25	-	5.25	-
Switzerland	4⅛	4⅜	4⅛	4⅛	4	6.625	4.00	-
week ago	4⅛	4⅜	4⅜	4⅛	4	6.625	4.00	-
US	3½	3 11/16	3⅞	4⅜	4 11/16	-	3.00	-
week ago	3½	3 11/16	3 11/16	4⅜	4 11/16	-	3.00	-
Japan	2⅛	2⅛	2¼	2¼	2⅛	-	1.75	-
week ago	2⅛	2⅛	2⅛	2⅛	2⅜	-	1.75	-
■ $ LIBOR FT London								
Interbank Fixing	-	3 11/16	3⅞	4⅜	4 11/16	-	-	-
week ago	-	3 11/16	4	4¼	4¾	-	-	-
US Dollar CDs	-	3.41	3.66	3.99	4.46	-	-	-
week ago	-	3.41	3.75	4.06	4.48	-	-	-
SDR Linked Ds	-	3⅞	3⅞	3⅞	4	-	-	-
week ago	-	3⅞	3⅞	3⅞	4	-	-	-

ECU Linked Ds mid rates: 1 mth: 6⅜; 3 mths: 6¼; 6 mths: 6⅛; 1 year: 6⅛. $ LIBOR interbank fixing rates are offered rates for $10m quoted to the market by four reference banks at 11am each working day. The banks are: Bankers Trust, Bank of Tokyo, Barclays and National Westminster.
Mid rates are shown for the domestic Money Rates, US $ CDs and SDR Linked Deposits (Ds).

EURO CURRENCY INTEREST RATES

Mar 29	Short term	7 days notice	One month	Three months	Six months	One year
Belgian Franc	6⅜ - 6¼	6⅜ - 6¼	6 5/16 - 6 3/16	6 5/16 - 6 3/16	6¼ - 6⅛	6¼ - 6⅛
Danish Krone	5¾ - 5¼	6¼ - 6	6⅜ - 6⅛	6⅜ - 6⅛	6¼ - 6	6 - 5¾
D-Mark	6½ - 6¼	5⅞ - 5¾	5 13/16 - 5 11/16	5¾ - 5⅝	5 11/16 - 5 9/16	5½ - 5⅜
Dutch Guilder	5⅝ - 5½	5 9/16 - 5 7/16	5½ - 5⅜	5⅜ - 5¼	5⅜ - 5¼	5⅜ - 5¼
French Franc	6¼ - 6⅛	6¼ - 6⅛	6¼ - 6⅛	6¼ - 6⅛	6¼ - 6⅛	6⅛ - 6
Portuguese Esc.	10¼ - 10	10⅝ - 10⅜	10½ - 10	9⅞ - 9⅝	9¾ - 9½	9½ - 9¼
Spanish Peseta	8⅛ - 8	8⅛ - 8	8¼ - 8 1/16	8⅛ - 8	8⅛ - 8	8⅛ - 8
Sterling	5⅝ - 5½	5 3/16 - 5 1/16	5 3/16 - 5 1/16	5⅜ - 5¼	5 7/16 - 5 5/16	5¾ - 5⅝
Swiss Franc	4¼ - 4	4¼ - 4	4¼ - 4⅛	4⅜ - 4 3/16	4 5/16 - 3 15/16	4 - 3⅞
Can. Dollar	4⅞ - 4⅝	4⅝ - 4⅜	4 13/16 - 4 11/16	5⅜ - 5¼	5½ - 5⅜	5⅞ - 5¾
US Dollar	3 5/16 - 3 3/16	3 9/16 - 3 7/16	3 11/16 - 3 9/16	3⅞ - 3¾	4⅜ - 4¼	4 13/16 - 4 11/16
Italian Lira	9 - 7½	8⅞ - 7⅞	8⅞ - 7⅞	8⅞ - 7⅞	8¼ - 7⅞	8⅝ - 8¼
Yen	2⅜ - 2¼	3⅛ - 3⅛	2½ - 2⅜	2⅜ - 2¼	2⅜ - 2¼	2⅜ - 2¼
Asian $Sing	3½ - 2½	3½ - 2½	3½ - 2½	4 - 3	4 - 3	4¼ - 3¼

Short term rates are call for the US Dollar and Yen, others: two days' notice.

■ THREE MONTH PIBOR FUTURES (MATIF) Paris interbank offered rate

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Jun	94.05	93.99	-0.01	94.06	93.98	15,258	88,200
Sep	94.28	94.23	-0.01	94.31	94.21	9,012	42,189
Dec	94.47	94.41	-0.02	94.49	94.40	6,691	35,094
Mar	94.55	94.50	-0.01	94.57	94.48	4,355	38,694

■ THREE MONTH EURODOLLAR (LIFFE)* $1m points of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Jun	95.66	95.64	-0.01	95.66	95.65	318	4535
Sep	95.23	95.20	-0.02	95.23	95.22	126	2247
Dec	94.75	94.72	-0.03	94.75	94.74	50	1430
Mar	-	94.47	-0.03	-	-	0	816

■ THREE MONTH EUROMARK FUTURES (LIFFE)* DM1m points of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Jun	94.59	94.51	-0.06	94.59	94.51	21034	247115
Sep	94.81	94.74	-0.05	94.81	94.72	14930	163939
Dec	94.93	94.85	-0.05	94.93	94.84	13137	161867
Mar	95.04	94.93	-0.07	95.04	94.93	11895	155866

■ THREE MONTH EUROLIRA INT.RATE FUTURES (LIFFE) L1000m points of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Jun	91.90	91.75	-0.08	91.91	91.77	4771	59477
Sep	92.10	91.92	-0.10	92.10	91.92	3619	22065
Dec	92.23	92.06	-0.10	92.23	92.05	1923	37571
Mar	92.20	92.06	-0.10	92.22	92.12	486	5551

■ THREE MONTH EURO SWISS FRANC FUTURES (LIFFE) SFr1m points of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Jun	96.03	96.00	-0.02	96.04	95.98	2188	34813
Sep	96.11	96.08	-0.02	96.11	96.06	592	8925
Dec	96.07	96.02	-0.02	96.07	96.02	369	4420
Mar	95.91	95.88	-0.02	95.91	95.88	55	274

■ THREE MONTH ECU FUTURES (LIFFE) Ecu1m points of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Jun	94.01	93.95	-0.02	94.01	93.94	1070	10866
Sep	94.21	94.15	-0.03	94.21	94.15	150	11609
Dec	94.32	94.26	-0.04	94.33	94.25	244	6751
Mar	94.32	94.27	-0.03	94.33	94.27	316	1022

* LIFFE futures traded on APT

■ THREE MONTH EURODOLLAR (IMM) $1m points of 100%

	Open	Latest	Change	High	Low	Est. vol	Open int.
Jun	95.64	95.64	-0.01	95.66	95.64	69,313	492,246
Sep	95.22	95.19	-0.03	95.23	95.19	58,224	353,427
Dec	94.74	94.71	-0.03	94.75	94.71	37,990	284,971

■ US TREASURY BILL FUTURES (IMM) $1m per 100%

	Open	Latest	Change	High	Low	Est. vol	Open int.
Jun	96.07	96.06	-0.02	96.07	96.06	2,214	38,210
Sep	-	95.68	-	-	95.68	842	7,371
Dec	-	95.34	-	-	95.34	50	2,877

All Open interest figs. are for previous day

■ EUROMARK OPTIONS (LIFFE) DM1m points of 100%

Strike Price	CALLS Jun	Sep	Dec	PUTS Jun	Sep	Dec
9450	0.12	0.34	0.49	0.11	0.10	0.14
9475	0.04	0.20	0.33	0.28	0.21	0.23
9500	0.02	0.10	0.21	0.51	0.36	0.36

Est. vol. total, Calls 2855 Puts 8761. Previous day's open int., Calls 209403 Puts 149508

■ EURO SWISS FRANC OPTIONS (LIFFE) SFr 1m points of 100%

Strike Price	CALLS Jun	Sep	Dec	PUTS Jun	Sep	Dec
9600	0.10	0.22	0.27	0.10	0.14	0.25
9625	0.05	0.11	0.15	0.30	0.28	0.36
9650	0.02	0.05	0.07	0.52	0.47	0.55

Est. vol. total, Calls 0 Puts 0. Previous day's open int., Calls 488 Puts 3354

UK INTEREST RATES

LONDON MONEY RATES

Mar 29	Over-night	7 days notice	One month	Three months	Six months	One year
Interbank Sterling	5½ - 3	5 3/16 - 4⅞	5¼ - 5 1/16	5⅜ - 5⅛	5½ - 5¼	5 13/16 - 5⅝
Sterling CDs	-	-	5 3/16 - 5 1/16	5 7/16 - 5 5/16	5⅝ - 5½	5 15/16 - 5 13/16
Treasury Bills	-	-	4 27/32 - 4 25/32	4¾ - 4 11/16	-	-
Bank Bills	-	-	4 15/16 - 4⅞	5 - 4 15/16	5 1/16 - 5	-
Local authority deps.	5¼ - 5⅛	5 3/16 - 5 1/16	5⅛ - 5	5¼ - 5⅛	5 9/16 - 5 7/16	5 15/16 - 5 13/16
Discount Market Deps	5 - 3½	5⅛ - 5	-	-	-	-

UK clearing bank base lending rate 5¼ per cent from February 8, 1994

	Up to 1 month	1-3 month	3-6 months	6-9 months	9-12 months
Certs of Tax dep. (£100,000)	1½	4	3¾	3¾	3½

Certs of Tax dep. under £100,000 is 1½pc. Deposits withdrawn for cash ½pc.
Ave. tender rate of discount 4.8058pc. ECGD fixed rate Stlg. Export Finance. Make up day February 28, 1994. Agreed rate for period Mar 26, 1994 to Apr 25, 1994, Schemes II & III 6.50pc. Reference rate for period Feb 1, 1994 to Feb 28, 1994, Schemes IV & V 5.268pc. Finance House Base Rate 5½pc from Mar 1, 1994

■ THREE MONTH STERLING FUTURES (LIFFE) £500,000 points of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Jun	94.64	94.56	-0.06	94.66	94.54	23306	120775
Sep	94.44	94.31	-0.09	94.47	94.30	22104	86589
Dec	94.13	93.96	-0.14	94.17	93.94	31674	110634
Mar	93.71	93.47	-0.20	93.73	93.45	11820	43305

Traded on APT. All Open interest figs. are for previous day.

■ SHORT STERLING OPTIONS (LIFFE) £500,000 points of 100%

Strike Price	CALLS Jun	Sep	Dec	PUTS Jun	Sep	Dec
9450	0.18	0.21	0.16	0.12	0.40	0.70
9475	0.08	0.13	0.10	0.27	0.57	0.89
9500	0.03	0.07	0.05	0.47	0.78	1.09

Est. vol. total, Calls 14742 Puts 10356. Previous day's open int., Calls 144363 Puts 142047

BASE LENDING RATES

	%		%		%
Adam & Company	5.25	Duncan Lawrie	5.25	* Roxburghe Guarantee Corporation Limited is no longer authorised as a banking institution.	8
Allied Trust Bank	5.25	Exeter Bank Limited	6.25	Royal Bk of Scotland	5.25
AIB Bank	5.25	Financial & Gen Bank	6	●Smith & Williamson Secs.	5.25
●Henry Ansbacher	5.25	●Robert Fleming & Co	5.25	Standard Chartered	5.25
Bank of Baroda	5.25	Girobank	5.25	TSB	5.25
Banco Bilbao Vizcaya	5.25	●Guinness Mahon	5.25	●United Bk of Kuwait	5.25
Bank of Cyprus	5.25	Habib Bank AG Zurich	5.25	Unity Trust Bank Plc	5.25
Bank of Ireland	5.25	●Hambros Bank	5.25	Western Trust	5.25
Bank of India	5.25	Heritable & Gen Inv Bk.	5.25	Whiteaway Laidlaw	5.25
Bank of Scotland	5.25	●Hill Samuel	5.25	Yorkshire Bank	5.25
Barclays Bank	5.25	C. Hoare & Co	5.25		
Brit Bk of Mid East	5.25	Hongkong & Shanghai	5.25		
●Brown Shipley	5.25	Julian Hodge Bank	5.25		
CL Bank Nederland	5.25	●Leopold Joseph & Sons	5.25		
Citibank NA	5.25	Lloyds Bank	5.25		
Clydesdale Bank	5.25	Meghraj Bank Ltd	5.25		
The Co-operative Bank	5.25	Midland Bank	5.25		
Coutts & Co	5.25	* Mount Banking	6		
Credit Lyonnais	5.25	NatWestminster	5.25		
Cyprus Popular Bank	5.25	●Rea Brothers	5.25		

● Members of British Merchant Banking & Securities Houses Association
* In administration

MONEY MARKET FUNDS

Money Market Trust Funds

[illegible]

Money Market Bank Accounts

[illegible]

The Co-operative Bank
PO Box 300, Skelmersdale, Lancs 0345 252000
[illegible]

30-60 day notice available Tel 061-829 5535

[illegible]

J. Henry Schroder Wagg & Co Ltd
120 Cheapside, London EC2V 6DS 071-382 6000
[illegible]

Western Trust High Interest Cheque Acc
The Moneycentre, Plymouth PL1 1SE 0752 224141
[illegible]

NOTES- Gross: Contractual rate of interest payable, not taking account of the deduction of basic rate income tax. Net: Rate of interest payable after allowing for deduction of basic rate income tax. Gross CAR: Gross rate annualised to take account of compounding of interest paid other than once a year, 'Compounded Annual Rate'. Int Cr: Frequency at which interest is credited to the account.

COMPANY NOTICES

Luke FSC, Ltd.

A Bermuda corporation is available to enter into leasing transactions as lessor, with respect to U.S. manufactured property to be used outside the U.S. If interested, please contact the company at:

Luke FSC, Ltd
c/o CODAN Services Ltd.
Clarendon House
Church Street
Hamilton, Bermuda

First Chicago Leasing FSC, Inc.

a U.S. Virgin Islands corporation is available to arrange leases of U.S. manufactured property to be used predominantly outside the U.S. If interested, please contact the company at:

First Chicago Leasing FSC, Inc.
Citibank Building, Suite 208
St. Thomas, U.S.V.I. 00801

Oak Street FSC, Inc.

a Bermuda corporation is available to enter into leasing transactions, as lessor, with respect to U.S. manufactured property to be used outside the U.S. by any affiliate of John Swire & Sons Limited. If interested, please contact the company at:

Oak Street FSC, Ltd.
c/o CODAN Services Ltd.,
Clarendon House, Church Street,
Hamilton, Bermuda

Prices for electricity determined for the purposes of the electricity pooling and settlement arrangements in England and Wales.

1/2 hour period ending	Provisional Price for Trading on 30.03.94: Pool purchase price £/MWh	Final Prices for Trading on [illegible]: Pool purchase price £/MWh	Pool selling price £/MWh
0030	10.82	16.10	16.10
0100	10.81	16.22	16.22
0130	10.89	16.24	16.24
0200	15.63	16.24	16.24
0230	15.66	16.21	16.21
0300	15.66	16.22	16.22
0330	15.65	16.22	16.22
0400	15.62	16.18	16.18
0430	15.60	16.04	16.04
0500	10.85	10.62	10.62
0530	10.82	15.50	15.50
0600	10.82	15.50	15.50
0630	10.89	15.52	15.52
0700	15.75	15.74	15.74
0730	16.83	16.06	16.06
0800	22.88	16.51	20.10
0830	20.02	16.01	19.80
0900	22.86	16.91	20.11
0930	20.02	16.52	20.11
1000	20.02	16.52	20.12
1030	20.02	16.52	20.12
1100	20.02	16.52	20.12
1130	20.02	16.52	20.12
1200	20.02	16.53	20.13
1230	20.02	16.52	20.12
1300	20.02	16.52	20.12
1330	16.83	16.51	20.11
1400	16.83	16.51	20.10
1430	16.89	16.51	20.10
1500	16.83	16.51	20.10
1530	16.83	16.51	20.10
1600	16.83	17.38	20.95
1630	16.83	16.52	20.12
1700	16.89	18.45	22.06
1730	16.83	18.50	22.12
1800	16.83	18.85	22.31
1830	15.72	25.33	29.00
1900	15.70	18.66	22.33
1930	15.75	25.15	28.77
2000	15.74	18.44	22.04
2030	16.27	17.38	20.96
2100	16.83	16.51	20.10
2130	16.83	16.06	16.06
2200	14.52	16.00	16.00
2230	15.64	15.69	15.69
2300	10.97	15.55	15.55
2330	10.88	10.62	10.62
2400	10.62	10.62	10.62

Prices are determined for every half-hour in each twenty-four hour period. Prices are in pounds per megawatt-hour, rounded to two decimal places. To convert prices to pence per kilowatt-hour the decimal point should be moved one place to the left, eg £18.55/MWh becomes 1.855p/KWh. Provision for the determination of pool prices is made in the Pooling and Settlement Agreements which govern the operation of the electricity pool in England and Wales. The Pool Purchase Price is the basis of the majority of payments made to generators in respect of electricity traded through the pool. The calculation of pool prices is a highly complex process the product of which is subject to revision or correction (and sometimes major alterations) until final pool prices are determined approximately twenty-four days after the day of trading. Accordingly, due to the possibility of their revision and/or correction, no reliance should be placed upon provisional pool prices for any day being the same as final pool prices for that day. Final pool prices are also capable of revision. Pool Selling Price is the price paid by purchasers of electricity under the pool trading arrangements. It is dependent upon the determination of Pool Purchase Price. Further information on pool prices is provided on behalf of the Pool by Energy Settlements and Information Services Limited. Anyone wishing to receive such information should telephone 0602-[illegible] between 8.30am and 5.15pm Monday to Friday.
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LEGAL NOTICES

MIDMAIN INFORMATION SYSTEMS LIMITED

Notice is hereby given pursuant to Section 98 of The Insolvency Act 1986 that a meeting of the creditors of the above named company will be held at 7 Kendrick Place, London, W1H 3FF on 21st April 1994 at 12.00 noon for the purposes provided for in the Section 99 et seq.
A list of the names and addresses of the above Company's Creditors can be inspected at offices of Latham Crossley & Davis, 7 Kendrick Place, London, W1H 3FF, between the hours of 10.00 am and 4.00 pm on the two business days preceding the Meeting of Creditors.

Dated this 24th March 1994
R J W SWEET, Director

PERSONAL

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WORLD STOCK MARKETS

EUROPE

AUSTRIA (Mar 29 / Sch)

BELGIUM/LUXEMBOURG (Mar 29 / Frs.)

DENMARK (Mar 29 / Kr)

FINLAND (Mar 29 / Mka)

FRANCE (Mar 29 / Frs.)

GERMANY (Mar 29 / Dm.)

ITALY (Mar 29 / Lira)

NETHERLANDS (Mar 29 / Fls.)

NORWAY (Mar 29 / Kroner)

SPAIN (Mar 29 / Pta.)

SWEDEN (Mar 29 / Kronor)

SWITZERLAND (Mar 29 / Frs.)

[illegible]

PACIFIC

JAPAN (Mar 29 / Yen)

AUSTRALIA (Mar 29 / Aust$)

HONG KONG (Mar 29 / H.K.$)

MALAYSIA (Mar 29 / MYR)

SINGAPORE (Mar 29 / S$)

[illegible]

NORTH AMERICA

CANADA

TORONTO (Mar 29 / Can $)
3:15 pm

MONTREAL (Mar 29 / Can $)
3:15 pm

[illegible]

AFRICA

SOUTH AFRICA (Mar 29 / Rand)

[illegible]

Prices supplied by Telekurs

NOTES - Prices on this page are as quoted on the individual exchanges and are mostly last traded prices. Highs/Lows are now 1994, except Toronto & Montreal (daily). # Dealings suspended. xd Ex dividend. xc Ex scrip issue. xr Ex rights. xa Ex all. (b) Owing to problems at Telekurs, some Netherlands prices in yesterday's FT were pre-close.

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■ TOKYO - MOST ACTIVE STOCKS: Tuesday, March 29, 1993

	Stocks Traded	Closing Prices	Change on day		Stocks Traded	Closing Prices	Change on day
Ricoh	7.3m	838	+13	Hitachi	3.3m	950	−16
NEC	5.7m	1120	−30	Fuji Heavy Ind	3.2m	406	−7
Isuzu Motors	5.4m	460	−6	Fujitsu Ltd	3.0m	1020	−40
Clarion	3.4m	580		Kawasaki Steel	3.0m	358	−6
Toshiba	3.3m	779	−20	Itochu Corp	3.0m	681	+8

INDICES

[illegible]

US INDICES

[illegible]

■ RATIOS

	Mar 25	Mar 18	Mar 11	Year ago
Dow Jones Ind. Div. Yield	2.70	2.82	2.81	2.98
	Mar 23	Mar 16	Mar 9	Year ago
S & P Ind. Div. yield	2.39	2.37	2.37	2.49
S & P Ind. P/E ratio	24.83	24.58	24.53	26.18

■ STANDARD AND POORS 500 INDEX FUTURES $500 times index

	Open	Latest	Change	High	Low	Est. vol.	Open Int.
Jun	481.35	480.30	-1.05	481.65	480.10	80,885	179,714
Sep	-	483.40	+1.45	-	-	328	5,433
Dec	-	485.70	+1.30	-	-	29	4,467

Open interest figures are for previous day.

■ CAC-40 STOCK INDEX FUTURES (MATIF)

	Open	Sett.Price	Change	High	Low	Est. vol.	Open Int.
Mar	2152.0	2119.0	-28.0	2154.0	2116.0	31,868	24,998
Apr	2162.5	2129.0	-26.5	2164.5	2127.0	12,163	11,970
May	2161.5	2132.5	-26.5	2161.5	2133.5	1,546	6,796

Open interest figures for previous day.

■ NEW YORK ACTIVE STOCKS

Monday	Stocks traded	Close price	Change on day
Telefonos	4,752,700	60½	-2
Comp Assoc	4,054,300	32⅝	-3¼
Chrysler	4,028,200	54¼	+⅜
IBM	3,354,000	53¾	-¼
Philip Morris	3,330,900	51⅛	-⅜
RJR Nabisco	2,983,900	6⅛	-¼
Gen Motors	2,745,700	57⅝	+¼
Micron	2,190,500	82¾	-2⅜
Merck	2,144,000	30¼	+⅛
Natl Semi	2,099,700	21	-¼

■ TRADING ACTIVITY

● Volume (million)

	Mar 28	Mar 25	Mar 24
New York SE	283.883	248.532	303,742
Amex	19.809	15.248	18.519
NASDAQ	300.924	281.286	373.500
NYSE			
Issues Traded	2,782	2,728	2,781
Rises	849	846	520
Falls	1,560	1,197	1,729
Unchanged	573	685	532
New Highs	16	34	32
New Lows	195	66	120

** Sat Mar 26: Taiwan Weighted Price 5332.21; Korea Comp Ex 872.68. Base values of all indices are 100 except: Australia All Ordinary and Mining – 500; Austria Traded, BEL20, HEX Gen., MIB Gen., SBF250, CAC40, Euro Top-100, ISEQ Overall; Toronto Comp./Metals & Minerals and DAX – all 1,000; JSE Gold – 255.7; JSE 20 Industrials – 264.3; NYSE All Common – 50 and Standard and Poor's – 10. §§ Montreal. ♦ Toronto. (c) Closed. (u) Unavailable. ‡ IBIS/DAX after-hours index: Mar 29 - 2162.82 -4.80

† Correction. * Calculated at 15.00 GMT. ● Excluding bonds. ‡ Industrial, plus Utilities, Financial and Transportation. ♦ The DJ Ind. Index theoretical day's highs and lows are the averages of the highest and lowest prices reached during the day by each stock; whereas the actual day's highs and lows (supplied by Telekurs) represent the highest and lowest values that the index has reached during the day. (The figures in brackets are previous day's). ¶ Subject to official recalculation. Highs & Lows are new for 1994.

3:15 pm March 29

NEW YORK STOCK EXCHANGE COMPOSITE PRICES

1994 High	1994 Low	Stock	Div	Yld. %	P/E	Sls 100s	High	Low	Close Quote	Chng Prev. Close
17⅛	14⅛	AAR	0.48	3.0	53	101	16⅛	16	16	-⅛
16⅞	14	A L Labs A x	0.18	1.1	38	325	16⅝	16⅜	16½	+¼
65½	60⅝	AMP	1.68	2.7	22	704	62¾	62¼	62⅜	-⅜
72¾	59⅛	AMR			28	3200	60⅜	d59⅛	59⅜	-⅝
5	3⅝	ARX			15	252	4½	4⅜	4½	+⅛
58⅛	44⅛	ASA	2.00	4.5	29	455	45¼	44⅝	44⅞	-¾
30⅝	26⅛	AbbtL	0.76	2.8	16	7350	27⅝	27¼	27½	+⅛
13¼	11⅜	AbbtCa Pr	0.50	4.0	8	126	12¾	12½	12½	-⅜
13¾	11⅛	Acceptcelo			21	54	11⅜	11⅜	11⅜	
31	25¾	ACE Ltd x	0.40	1.5	4	1428	27	26½	26⅞	+¼
12½	11¼	ACM Gvt In x	1.09	9.7		116	11⅜	d11¼	11¼	-⅛
10⅛	8⅝	ACM GvOpp x	0.80	9.4		38	8½	d8⅜	8½	
10⅝	9⅛	ACM Gvt Sp x	0.96	10.5		248	9¼	d9⅛	9⅛	
12	10½	ACM Gvt Se x	1.08	10.7		904	10⅝	d10¼	10¼	-⅛
11¾	9⅝	ACM Man x	1.06	11.1		114	9¾	d9⅝	9¾	+⅛
9¼	8¼	ACM Mangd x	0.72	8.6		224	8⅜	d8¼	8⅜	+⅛
10⅝	8⅞	AcmeClv	0.44	4.9	11	72	9⅛	8⅞	9	
8½	7¼	Acme Elect			33	32	7¾	7⅝	7¾	+⅛
28¼	23	Acordia	0.60	2.2	13	71	27½	27⅛	27¼	-¼
9¼	6⅛	Actava	0.36	5.3	2	172	7⅛	6¾	6¾	-½
13⅜	11¼	Acuson			97	235	12⅞	12⅝	12⅝	-¼
18⅝	17⅛	Adams Expr	0.36	2.1	0	118	17⅛	d17	17⅛	-⅛
64	46½	Adv Micro	3.00	5.0		624	60⅛	59½	59½	+½
31¾	18¾	AdvMic	3.00	10.2	12	16806	29⅜	29¼	29⅜	+¼
6⅞	6⅜	Advest Grp	0.16	2.5	10	95	6⅜	d6¼	6⅜	
20	16¾	Aetna Inc x	0.10	0.6	120	41	18⅝	18	18	-⅛
57¼	49⅜	Aegon ADR	1.23	2.4	11	70	50¾	50⅛	50⅛	-¼
65⅞	54	AetnaL	2.76	5.1	10	1053	55	54¼	54⅝	-¼
31⅞	25¼	Aflac	0.40	1.3	13	705	30⅞	30⅝	30¾	
20¼	16⅜	Ahmanson	0.88	5.1	11	8623	17⅝	17⅜	17⅜	-¼
4	1⅜	Aileen Inc			2	55	3⅛	2⅞	2⅞	-⅛
49⅞	44¼	AirPrC x	0.92	2.0	25	1486	46⅜	45⅜	45⅝	-¾
36⅞	33⅛	Airbne Frt	0.30	0.8	21	682	36⅛	35¾	35⅞	+⅛
26	19¾	Airgas Inc			35	2785	21½	20½	20½	-1
16⅛	15⅛	Airlease x	1.84	11.7	12	32	15⅞	15¾	15¾	
108½	101	AlaPw8.16	8.16	7.8		3	104	104	104	
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

- B -

[illegible]

- C -

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Continued on next page

هكذا من الأصل

NYSE COMPOSITE PRICES

3:15 pm March 29

Continued from previous page

[illegible]

NASDAQ NATIONAL MARKET

3:15 pm March 29

Stock	Div.	P/E	Sls 100s	High	Low	Last	Chng
ABS Inds	0.20	21	149	u16¾	15¾	15½	-¼
ACC Corp	0.12	101	901	25	23¾	24¼	-¾
Acclaim E		25	5960	20	d18¾	19⅛	-⅞
Acme Mets		20	446	24½	23	23¾	-⅞
Acxiom Cp		30	111	21¾	21¼	21¼	
Adaptech		17	5078	19⅜	18½	18¾	-⅝
ADC Tele		27	1100	35	33	33⅛	-1⅞
Addington		94	168	16⅝	d16	16	-¼
Adia Serv	0.16	20	311	34½	34	34	
Adobe Sys x	0.20	20	10820	25	23½	25	+⅜
Advance C		9	109	13¼	12⅞	12⅞	-⅛
Adv Logic		7	1218	6¼	5¾	5¾	-¼
Adv Polym		8	350	6⅞	6⅛	6⅛	-⅜
AdvTchLab		33	2218	15¾	d15	15¼	
Advanta	0.20	16	1215	33	32¼	32½	-½
Affymax		12	102	16¼	16	16¼	-⅛
Agency Re		22	925	13⅞	13¼	13¼	-½
AgnicoEa	0.10	140	822	12¾	12⅜	12⅝	
Alco ADR	2.80	20	370	57¾	57⅛	57⅛	-⅞
Aldus Cp		39	2348	28	26½	27⅝	-⅛
AlexBld	0.88	17	223	26¼	25¼	25¼	-⅜
Allegh &W		16	158	8½	8½	8½	
Allen Org	0.52	13	3	u34	34	34	
Allen Ph		5	1069	10	9¼	9¾	+½
AlldCapll	1.00	13	69	14¾	14	14¾	

Stock	Div.	P/E	Sls 100s	High	Low	Last	Chng
Deb Shops	0.20	19	137	6¾	6½	[illegible]	[illegible]
Dekalb Gn	0.32	23	40	16⅛	15	[illegible]	[illegible]
Dekalb Ge	0.80	49	39	34¼	33	[illegible]	[illegible]
Delchamps	0.44	11	4	22	22	[illegible]	[illegible]
Dell Comp		25	11617	27½	26⅛	[illegible]	[illegible]
DeltaDSim	0.16	19	307	16½	15¾	[illegible]	[illegible]
Dnsply		33	4299	41	d37¾	[illegible]	[illegible]
Dep Gty	1.00	7	61	26¾	26⅜	[illegible]	[illegible]
Devcon	0.20	4	280	7⅛	7	[illegible]	[illegible]
DH Tech		14	79	17¾	17⅜	[illegible]	[illegible]
Dibrell B	0.72	8	383	20	d19¼	[illegible]	[illegible]
Digi Intl		76	783	18½	d17	[illegible]	[illegible]
Dig Micro		7	613	14½	14	[illegible]	[illegible]
Dig Sound		7	725	2¾	2⅛	[illegible]	[illegible]
Dig Syst		3	132	2⅝	2½	[illegible]	[illegible]
Dionex Cp		16	76	36¼	35	[illegible]	[illegible]
Dixie Yrn	0.20	22	9	9¾	d9¼	[illegible]	[illegible]
DNA Plant		2	635	5	4⅞	[illegible]	[illegible]
Dollar Gn	0.20	30	3833	31½	30	[illegible]	[illegible]
Dorch Htn x	0.88	16	3	15	d15	[illegible]	[illegible]
DracoEngy		6	31	9¼	8⅝	[illegible]	[illegible]
DressBarn		13	694	12½	12	[illegible]	[illegible]
Drey GD	0.24	20	3543	24¾	23½	[illegible]	[illegible]
Drug Empo	0.08	37	82	6	5⅝	[illegible]	[illegible]
DS Bancor	1.00	15	86	26¾	26	[illegible]	[illegible]

[illegible]

AMEX COMPOSITE PRICES

3:15 pm March 29

[illegible]

AMERICA

US shares weaken in line with bond market

Wall Street

The four-day sell-off in US stocks accelerated yesterday morning as the bond market reacted negatively to news of a resurgence in consumer confidence, *writes Frank McGurty in New York*.

By midday, the Dow Jones Industrial Average was 34.54 lower at 3,727.81, while the more broadly based Standard & Poor's 500 was down 4.33 at 456.13. In the secondary markets, the American SE composite was off 4.29 at 457.92. The Nasdaq composite fell back 11.36 to 761.14, bringing its cumulative loss over the past week to 42 points, or 5 per cent.

Volume on the NYSE was moderate, with 137m shares traded by midday. Declining issues outnumbered advances by 1,686 to 372.

The late recovery in share prices during the previous session failed to carry over into yesterday's opening. On Monday, the Dow industrials battled back from a 45-point deficit to close just 12 points down. The improvement came as bond prices extended their gains. Likewise, yesterday's setback ran closely in parallel with activity in the US Treasury market.

In early trading the yield on the benchmark 30-year government issue again pushed above 7.00 per cent. The move came after the Conference Board said that its March consumer confidence index made a stronger-than-expected recovery from February's weather-related slump. For equity investors, the unsettled mood in the bond market clearly outweighed the implications of more buoyant consumer confidence in sustaining economic expansion.

The impact of bond yields on market sentiment was clearly reflected in a recommendation issued yesterday by one of Wall Street's biggest brokers. Smith Barney Shearson urged its clients to cut their equity holdings from 55 to 50 per cent of their portfolios, saying that the uptrend in interest rates could depress share prices by another 8.7 per cent before the correction ends. The Dow industrial index has already dropped by well over 5 per cent since peaking at the end of January.

In yesterday's activity, cyclical stocks again led blue chips down. Some of the issues which had held their own over the previous three sessions suffered the worse declines. 3M dropped $1⅝ to $98⅝ and Goodyear $1⅝ to $41½.

UAL, the parent of United Airlines, was marked down $2⅝ to $130⅛ after filing details of a proposed $5bn buyout by the carrier's employees with federal regulators.

On the Nasdaq, the sell-off in computer-related stocks showed no signs of abating. Microsoft was $2¼ down at $83⅞, Intel $1⅛ at $67⅞ and WellFleet $2¼ at $71½.

Canada

Toronto stocks were lower at midday on a weak Canadian dollar and worries of a rise in interest rates expected later in the session.

Losses in communications, oils, financial services and forestry overpowered gains in real estate and consumer products.

Some analysts said they were expecting an increase of 50 to 60 basis points in the bank rate, currently at 5 per cent. The TSE 300 index was off 78.27, or 1.7 per cent, at 4,409.70.

Mexico

Equities opened lower on news of a rise in interest rates, before rising at midday on rumours that the ruling party had chosen Mr Ernesto Zedillo as presidential candidate following last week's assassination of Mr Luis Donaldo Colosio. The IPC index had gained 21.81 at 2,467.96 by midsession.

EUROPE

Fall in oils as German financials revive

Bourses mostly fell, oil shares dropping into line with their North American counterparts, although German financials took a turn for the better, *writes Our Markets Staff*.

MILAN reacted uneasily to the general election victory of the right wing Freedom Alliance, with profit-taking by domestic investors evident following Monday's sharp gains. The BCI index rose a modest 0.30 to 693.82.

Reaction from analysts was mixed. Mr Fabio Basagni of Actinvest was bullish, saying that this was the first time in 50 years that a government had been elected with a clear majority. A free market policy would be adopted, and there would be an acceleration in the number of privatisations.

Mr Richard Davidson, a Morgan Stanley strategist, commented that there remained a question mark over how the alliance partners would co-operate. "We maintain a zero weighting in our model portfolio," he said. "We think that the incoming government is unlikely to continue with budgetary policies as vigorous as those of the past two governments...and that will damage interest rate hopes".

Elsewhere Olivetti, which led the consortium awarded the licence for the second mobile telecommunications network by the outgoing government late on Monday, went against the trend, rising L54 to L2,650.

PARIS was hit by weakness in the bond market and a fall in oil stocks, the latter reacting belatedly to falls in oil prices, following the Opec agreement to maintain output until the end of the year.

The CAC-40 index lost 22.01 or 1 per cent to 2,122.48.

Turnover was slack at FFr3.6bn.

Elf Aquitaine and Total both fell back on the Opec news, the former losing FFr12.70 to FFr387 and the latter FFr7.10 at FFr310.50.

Casino, which held its 1993 dividend at FFr5, dipped FFr5.50 to FFr171.

FRANKFURT put up a relatively strong performance, the Dax index closing the session 6.93 higher at 2,168.35 and the post bourse at 2,162.82.

Ms Barbara Altmann, at B Metzler in Frankfurt, said that the influence of the bund futures market had been moderated by the strength of the D-Mark against the dollar: "People don't want to get out of it just now," she said.

Turnover rose from DM7.7bn to DM8.2bn. Share prices reflected a consolidation in cyclicals, favoured in the first quarter of 1994, and a revival in financials.

Allianz was the outstanding winner, up DM50 to DM2,575 for a two-day gain of DM99 although Dresdner Bank, up DM10 to DM406, ran the insurer close. Among the big cyclicals, BMW and Hoechst fell DM9 to DM829 and DM6 to DM332.50 respectively; both of these were strong performers on Monday.

MADRID *hit a new low for* the year, the general index falling 2.84 to 324.46 on Wall Street's losses as turnover picked up to Pta30.8bn.

Repsol was the hardest hit, falling Pta135, or 3 per cent to Pta4,365 on Wall Street, the weaker dollar and falling crude oil prices.

ZURICH chose to ignore favourable analytical reaction to the Ciba-Geigy results, and a drop in Swiss inflation. Ciba registered fell SFr17 to SFr864 and the SMI index by 35.0, or 1.2 per cent to 2,827.4.

Banks were pressured by continued worries that European interest rates might not decline as far, or as quickly as previously thought.

UBS headed the actives list and dropped SFr19 to SFr1,209.

AMSTERDAM was marked down in low volume, with some heavy falls seen among the major issues. The AEX index slipped 4.03 or 1 per cent to 406.90.

Royal Dutch, off Fl 1.60 at Fl 190.20, reacted to volatility in oil prices following the meeting of Opec at the weekend.

ING, the financial services group, which said that it was planning to issue a Fl 1bn bond and reported a 11 per cent rise in 1993 net profit, in line with expectations, lost Fl 1.80 to Fl 81.10.

BRUSSELS was flat, the Bel-20 index ending just 0.83 lower at 1,480.65, but a loss at the Luxembourg-based steelmaker, Arbed, left the latter down BFr175, or 4 per cent at BFr4,235.

STOCKHOLM racked up another decline in a two-week downtrend which has wiped out the gains achieved earlier in 1994. The Affärsvärlden General index fell 18.2 to 1,416.7.

● On the world stock market prices and indices page highs and lows are now shown for 1994.

Written and edited by William Cochrane and John Pitt

FT-SE Actuaries Share Indices

Mar 29								THE EUROPEAN SERIES
Hourly changes	Open	10.30†	11.00†	12.00	13.00	14.00	15.00	Close
FT-SE Eurotrack 100	1432.32	1426.08	1427.93	1428.80	1428.57	1428.82	1422.58	1421.05
FT-SE Eurotrack 200	1460.24	1457.07	1457.91	1457.54	1455.57	1455.91	1451.83	1452.67

	Mar 28	Mar 25	Mar 24	Mar 23	Mar 22
FT-SE Eurotrack 100	1436.59	1412.49	1425.41	1446.73	1438.48
FT-SE Eurotrack 200	1466.31	1449.55	1454.56	1478.00	1477.51

Base 1000 (26/10/90); High/day: 100 - 1432.82; 200 - 1460.24 Low/day: 100 - 1420.82 200 - 1450.94 † Indicative.

ASIA PACIFIC

Dollar decline triggers Nikkei loss

Tokyo

The Nikkei 225 average lost 1.2 per cent as prices were pulled down by the sharp fall in the dollar, *writes Emiko Terazono in Tokyo*.

The index was down 232.05 at 19,709.74 after a day's high of 19,969.19 just after the opening and a low of 19,653.03 in the afternoon.

The dollar moved below Y104 for the first time since March 4, currency traders fearing that the US government would be dissatisfied with Japan's trade package, which included macroeconomic measures and market opening schemes.

Analysts predicted volatility in the dollar/yen market. "The US is going to maintain pressure on Japan to meet its demands over trade, using the yen as a stick," said Mr Richard Werner, chief economist at Jardine Fleming Securities.

Volume remained almost flat, at 260m shares. The Topix index of all first section stocks slipped 16.33 to 1,596.51 and the Nikkei 300 shed 3.39 to 292.47. Declines led rises by 693 to 328, with 148 issues unchanged. In London the ISE/Nikkei 50 index eased 5.21 to 1,309.46.

Export oriented high-technology stocks retreated on profit-taking. NEC dipped Y30 to Y1,120 and Toshiba Y20 to Y779. Multimedia and telecommunication related shares were down, with NTT losing Y18,000 to Y914,000.

Mining and non-ferrous metal stocks, recently firm on the rise in commodity prices, declined: Dowa Mining relinquished Y25 to Y550 and Nippon Light Metal Y13 to Y617.

Ricoh, the high-technology office equipment maker, drew heavy buying, was the most active issue of the day, and rose Y13 to Y838. The group forecast double digit increases in profits for the third consecutive year due to restructuring efforts.

In Osaka, the OSE average declined 108.90 to 22,020.61 in volume of 28.3m shares.

Roundup

A more positive mood pervaded many of the region's markets yesterday. Taiwan was closed for a holiday.

HONG KONG ended sharply higher, assisted by a late surge in index futures. The Hang Seng index advanced 283.11, or 3 per cent, to 9,480.14, although turnover contracted from HK$5.2bn to HK$4.5bn.

Investors appeared unperturbed by news that measures to cool speculation in the property market would be announced this summer. Among property stocks, Cheung Kong rose HK$1 to HK$41.50, Sun Hung Kai HK$2 to HK$56 and Henderson Land HK$1.50 to HK$46.

Major banks were strong, with HSBC surging HK$4 to HK$91 and its Hang Seng Bank unit gaining HK$2 at HK$54.

SINGAPORE saw bargain hunting after falling in recent sessions. The Straits Times Industrial index rallied 33.79, or 1.6 per cent, to 2,093.72.

Brokers said some investors were heartened by reports that Malaysia's Bank Negara will report smaller than expected losses in its foreign exchange dealings.

KUALA LUMPUR rebounded on bargain hunting after Monday's 2 per cent decline, but brokers said that sentiment remained nervous. The composite index recovered 10.35 to 961.78.

SEOUL eased as banks encountered profit-taking. The composite index lost 7.62 at 875.62 and the financial sub-index shed 10.25 to 1,034.50.

MANILA ended higher on buying of major issues. The composite index added 17.45 at 2,703.13. Turnover slipped slightly to 1.15bn pesos.

AUSTRALIA was dragged lower by volatile trading in the futures and bond markets.

The All Ordinaries index lost 8.1 at 2,100.8 after a steep fall in the banking sector.

BOMBAY improved on active buying by mutual funds and financial institutions. The BSE 30-share index put on 67.02 at 3,780.20. KARACHI opened the new account with the KSE 100 index recovering 15.92 to 2,577.42.

Goodman Fielder, Australia's largest food group, yesterday told the Australian Stock Exchange that it was "not aware of any recent major change in the beneficial ownership of its shares", writes Nikki Tait in Sydney.

The statement followed a spate of intense bid and/or stake-building speculation, resulting from some very heavy trading of the group's shares on Monday. Around 26m shares changed hands, more than 2 per cent of the equity, but the share price, at A$1.62, has failed to move. Goodman has been the subject of much management upheaval in recent times, and reported a 12 per cent fall in first-half profits after tax.

Confidence in Johannesburg is shaken

A weaker gold price added to the upset on the Johannesburg Stock Exchange, still reeling from the impact of Monday's gun battles in the city centre which rocked market confidence, writes Matthew Curtin in Johannesburg.

The overall index shed 58 to 4,968 after losing nearly 3 per cent the day before. The golds index fell 97 to 2,026 as bullion failed to hold above $388 an ounce. But dealers said bargain hunting by local institutions pushed the industrial index up 36 to 5,762 after the previous day's 2 per cent drop.

Mr David Schapiro, of stockbrokers Frankel, Pollak, Vinderine, said that Monday's events had done severe damage to international investor confidence in the short term, even if there had been little panic selling.

The finrand closed at R4.765 against the dollar after starting the week at R4.705.

Politico-economic bet on Euroconstruction stocks

Christine Buckley looks at prospects for the sector

As economic recovery across Europe remains limp and equity markets nervous and fragile, the construction sector is attracting politico-economic bets.

Typically, governments attempt to boost flagging economies in periods of recession by gearing up infrastructure programmes.

The turnround in the industry may not be instantaneous, with several analysts maintaining forecasts of further, albeit slight, slowdowns for 1994. But looking to later this year and early 1995, many of them are positive about better prospects for the sector.

In France, housing starts are up by 12.7 per cent in the first two months of this year against the same period last year. Nikko Europe is expecting a bounce of 2 per cent in French construction output this year, after a 2 per cent decline in 1993.

Lafarge and Saint-Gobain, the building materials groups, stand out as two of the stronger stocks. Mr Michael Woodcock of Nikko says that the exposure of Saint-Gobain and Lafarge to the US is becoming less of a concern.

"Saint-Gobain is a very good recovery stock," he says. "Its prospects are multifarious with eight or so divisions." Lafarge, he adds, also had the benefit of having better than expected results for last year, inspiring more confidence over its present and future performance.

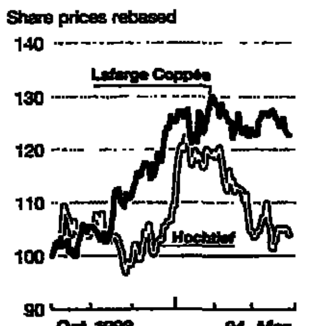
Spain's construction sector is in bullish mood, having enjoyed a large boost from infrastructure projects, many of which began two years ago. That boost was enhanced by last year's huge increase in public tender awards, which coincided with Spain's general elections. Tenders rose by 80 per cent.

The positive sentiment has been seized upon by Fomento de Construcciones y Contratas (FCC), which will soon make the largest ever equity placing by a private Spanish company. FCC, one of the top two stocks in the sector, is to place 20 per cent of its shares. The majority will be offered to US and UK institutions in two main tranches.

Ms Alexandra Perricone of James Capel believes that FCC, along with Dragados, with which it shares leadership of the industry, has identified that diversification is the key growth area for the sector. "Urban waste management is one of the expanding areas," she says, "and these companies have responded by diversifying more."

European construction

Share prices rebased



Source: Datastream

Ms Perricone warns, however, that while Spanish construction stocks are enjoying a measure of interest, companies are labouring a little under reduced margins.

For the Netherlands, this point is echoed by Mr Marc Slendebrook of Kleinwort Benson, who says that as life is stirring in the industry, "operating margins are stuck at 2 to 3 per cent in a fairly competitive market". But he is reasonably upbeat about prospects for stocks in the sector as a significant increase in public spending on construction begins to take effect.

Italy, having suffered the triple burden of a cut in the government's public spending, the European recession, and the corruption scandals, saw investment in construction tumble 23 per cent between 1992 and 1994. Hoare Govett, however, is confident that this steep slide will be reversed this year, and that recovery will begin in earnest now that the elections are over.

It recently issued a strong buy recommendation for Cogefar, the country's largest private construction company. Although Cogefar is facing full-year figures shortly, likely to record a loss and prove the worst in its history, Hoare Govett predicts a strong recovery next year. The shares have generally outperformed a weak market over the past few months.

Germany remains Europe's wild card for the industry, given the country's reunification and the consequent boost for rebuilding projects. In western Germany, business has been lifted by increased activity in residential development, propelled largely by increased tax incentives and the lure of low mortgage rates.

James Capel is cautious about Germany, recommending an underweight position with a buy stance only on Dyckerhoff, which has just taken control of Ciments Luxembourgeois from Arbed. On Hochtief, a stock favoured by many analysts following reunification, Capel advocates a sell.

Meanwhile, NatWest Securities notes that German construction stocks have tended to outperform in the first quarter of a given year, and wane a little thereafter.

FT-ACTUARIES WORLD INDICES

Jointly compiled by The Financial Times Ltd., Goldman, Sachs & Co. and NatWest Securities Ltd. in conjunction with the Institute of Actuaries and the Faculty of Actuaries

NATIONAL AND REGIONAL MARKETS	MONDAY MARCH 28 1994								FRIDAY MARCH 25 1994					DOLLAR INDEX		
Figures in parentheses show number of lines of stock	US Dollar Index	Day's Change %	Pound Sterling Index	Yen Index	DM Index	Local Currency Index	Local % chg on day	Gross Div. Yield	US Dollar Index	Pound Sterling Index	Yen Index	DM Index	Local Currency Index	1993/94 High	1993/94 Low	Year ago (approx)
Australia (69)	169.70	-1.9	168.11	112.23	147.59	158.40	-2.1	3.44	172.93	171.21	114.49	149.96	161.78	189.15	130.19	139.28
Austria (17)	185.58	-0.9	183.84	122.73	161.39	161.46	-0.3	0.96	187.30	185.44	124.00	162.42	161.90	195.41	139.63	142.47
Belgium (42)	167.92	0.1	166.34	111.05	146.03	142.72	0.3	3.96	167.78	166.11	111.08	145.49	142.26	171.69	141.92	148.77
Canada (107)	136.15	-0.7	134.88	90.04	118.41	135.40	-0.8	2.48	137.06	135.70	90.74	118.86	136.44	145.31	121.46	124.67
Denmark (32)	261.74	0.8	259.28	173.09	227.62	234.55	1.0	0.89	259.67	257.10	171.92	225.18	232.23	275.79	198.61	198.61
Finland (22)	142.21	-0.3	140.88	94.05	123.68	165.62	-0.7	0.90	142.70	141.29	94.48	123.75	166.77	156.72	74.61	74.61
France (96)	174.05	0.2	172.42	115.10	151.37	156.26	0.3	2.88	173.74	172.01	115.02	150.66	155.79	185.37	149.80	162.19
Germany (59)	138.52	1.1	137.23	91.61	120.47	120.47	1.4	1.73	137.03	135.68	90.72	118.83	118.83	142.38	107.59	112.24
Hong Kong (56)	382.91	-0.1	379.33	253.23	333.02	379.77	-0.1	2.78	383.13	379.33	253.65	332.25	380.02	506.56	250.94	264.17
Ireland (14)	187.85	0.2	186.09	124.23	163.37	163.29	-0.1	3.27	187.56	185.70	124.17	162.65	183.45	209.33	154.57	155.20
Italy (69)	81.49	5.0	80.72	53.89	70.87	99.61	4.2	1.69	77.61	76.84	51.38	67.30	95.61	81.49	55.21	57.15
Japan (469)	154.25	0.2	152.81	102.01	134.15	102.01	0.1	0.79	153.91	152.39	101.90	133.47	101.90	165.91	123.09	123.09
Malaysia (69)	445.40	-1.1	441.23	294.55	387.36	461.78	-2.0	1.65	450.51	446.04	298.26	390.68	471.07	621.63	277.11	277.11
Mexico (18)	2150.05	-1.0	2129.91	1421.86	1869.82	7891.00	-0.9	0.64	2172.38	2150.81	1438.21	1883.82	7967.03	2647.08	1431.17	1613.29
Netherland (26)	197.73	0.6	195.88	130.76	171.96	169.80	0.9	3.30	196.58	194.63	130.16	170.48	168.27	207.43	163.30	165.93
New Zealand (14)	64.89	-1.2	64.28	42.91	56.43	60.59	-1.7	3.84	65.68	65.03	43.48	56.96	61.61	77.59	45.71	46.45
Norway (23)	196.71	-1.0	194.87	130.09	171.07	194.51	-0.6	1.71	198.61	196.64	131.49	172.23	195.76	206.42	150.61	156.23
Singapore (45)	300.37	-1.2	297.56	198.64	261.23	218.01	-1.4	1.81	304.05	301.04	201.30	263.67	221.06	376.92	219.62	219.62
South Africa (60)	247.54	-3.7	245.22	163.70	215.28	256.86	-2.9	2.39	257.05	254.50	170.18	222.91	264.49	280.26	161.99	174.38
Spain (42)	142.93	-0.6	141.59	94.52	124.30	148.84	-0.4	3.88	143.80	142.37	95.20	124.70	149.48	155.79	116.33	128.26
Sweden (36)	208.23	-0.1	206.29	137.71	181.10	243.07	-0.2	1.58	208.39	206.32	137.96	180.71	243.51	230.02	158.27	158.61
Switzerland (46)	163.96	0.6	162.42	108.43	142.59	144.46	1.0	1.60	162.72	161.10	107.72	141.10	143.08	176.56	115.22	116.22
United Kingdom (215)	192.52	-0.1	190.71	127.32	167.43	190.71	0.0	3.85	192.65	190.74	127.56	167.07	190.74	214.98	170.32	171.84
USA (519)	187.45	-0.2	185.69	123.96	163.02	187.45	-0.2	2.82	187.76	185.90	124.31	162.82	187.76	198.04	176.91	182.88
EUROPE (744)	167.72	0.5	166.15	110.92	145.86	158.76	0.6	2.89	166.88	165.22	110.48	144.71	157.82	178.58	141.41	141.41
Nordic (113)	203.63	0.0	201.72	134.66	177.09	207.20	0.0	1.35	203.58	201.56	134.78	176.54	207.23	220.80	148.49	148.49
Pacific Basin (722)	162.37	0.1	160.86	107.38	141.22	111.88	-0.1	1.08	162.29	160.68	107.45	140.74	111.97	168.80	127.68	127.68
Euro-Pacific (1466)	164.45	0.2	162.91	108.75	143.02	130.26	0.2	1.85	164.05	162.42	108.61	142.26	130.01	170.78	133.18	133.18
North America (626)	184.26	-0.2	182.53	121.85	160.24	183.82	-0.2	2.81	184.61	182.77	122.22	160.08	184.18	192.73	173.70	179.27
Europe Ex. UK (529)	150.65	0.9	149.24	99.63	131.02	139.12	1.0	2.31	149.37	147.89	98.89	129.53	137.79	155.73	122.37	122.50
Pacific Ex. Japan (253)	242.37	-0.9	240.10	160.29	210.79	222.03	-1.2	2.75	244.64	242.21	161.96	212.15	224.64	298.21	172.68	172.74
World Ex. US (1651)	165.77	0.1	164.22	109.63	144.17	133.65	0.1	1.86	165.56	163.91	109.60	143.56	133.50	172.51	134.24	134.24
World Ex. UK (1955)	169.98	0.0	168.39	112.41	147.82	146.50	0.0	2.03	169.92	168.23	112.49	147.35	146.48	175.58	147.50	147.50
World Ex. So. Af. (2110)	171.54	0.1	169.93	113.44	149.18	149.63	0.0	2.20	171.43	169.72	113.49	148.65	149.57	178.56	149.57	149.57
World Ex. Japan (1701)	183.35	-0.1	181.63	121.25	159.45	178.72	0.0	2.80	183.45	181.63	121.45	159.08	178.77	195.20	164.42	165.21
The World Index (2170)	171.97	0.0	170.36	113.73	149.56	150.47	0.0	2.21	171.93	170.22	113.82	149.09	150.48	178.97	149.63	149.63

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Latest prices were unavailable for this edition.

FINANCIAL TIMES SURVEY

INVESTMENT IN INDIA

Wednesday March 30 1994

IN THIS SURVEY

Many people recognise the difficulties India faces – and the need for further radical reforms. What is missing is any widespread sense of urgency. India, it seems, will modernise – but at its own steady pace, writes **Stefan Wagstyl**

Air of quiet satisfaction

India is beginning to enjoy the first fruits of the economic transformation it launched three years ago.

Foreign investment and exports are rising fast, the stock market is up, and long-stagnant industrial output is *starting to recover.*

After six years of good harvests, the richer farmers are content – and spending money as never before.

An *air of quiet satisfaction* hangs over the government of Mr PV Narasimha Rao, the prime minister, whose position is stronger than at any time since he took over the ruling Congress (I) party from the *assassinated Rajiv Gandhi* in 1991. He has steered India through a balance-of-payments crisis and through the unrest which followed the sacking of the Ayodhya mosque in December 1992. The Bharatiya Janata party, the main opposition party whose supporters stormed the mosque, no longer looks the threat it was a year ago. Mr Rao has silenced his critics in the Congress party and seems likely to stay in command at least until the next general election which is due to be held by mid-1996 at the latest.

While the post-Ayodhya violence came as a shock, India has avoided the deep-rooted social unrest which has hit Russia and some other states struggling with pro-market reforms. As Mr Rao told the Financial Times in a recent interview: "The best thing is to show people that [reform] *works ... Perhaps* in many other countries it has taken a longer time, therefore people have lost their faith and all kinds of difficulties are threatening to come. In India fortunately we have been able to convince the people though, of course, much more remains to be done."

The question is whether the celebrations will prove short-lived – or whether India has at last entered a time of rapid and sustained economic modernisation.

With luck, including further adequate monsoons, the energies released by the reforms which have already been carried out should enable India to achieve the government's target of a steady growth rate of 5-6 per cent over the next year or two, up from an estimated 3.8 per cent for the year ending this month. However, this aim *is quite modest,* given that India grew at an average rate of 5.5 per cent in the pre-reform 1980s. To reach a significantly higher rate, India may need to undertake the radical reforms it has so far largely avoided – notably organising large-scale investment in infra*structure and cutting* its bloated public sector.

Moreover, as ministers acknowledge, without a growth rate of above 6 per cent, the country is unlikely to create jobs for its unemployed and underemployed masses or generate sufficient resources for education, health care and other development spending. As Mr P Chidambaram, a former commerce minister and staunch supporter of reform, says: "Only if we grow at 6-8 per cent for 10 years will growth percolate down to the poor."

The immediate prospects seem bright. In last month's 1994-95 Budget, Mr Manmohan Singh, the reformist finance minister, deliberately relaxed curbs on public borrowing to stimulate growth, the second pump-priming in two years. He also extended the deregulation policies which have been a central feature of reform since 1991, cutting peak customs duties from 85 per cent to 65 per cent (300 per cent before 1991).

He announced an overhaul of the complex and confused domestic indirect tax system. He cut interest rates by a percentage point to 14 per cent for the minimum lending rate. The Budget also set out plans for further financial market reforms, including steps to promote efficiency in banking and insurance.

Mr Singh admitted he was *taking a calculated risk* with the public finances by permitting high levels of public borrowing. He justified the decision by pointing to record food stocks and record foreign exchange reserves of $14bn (up *from $1bn in 1991) combined* with much idle capacity in industry.

Businessmen have pledged to seize the opportunities created by the pro-growth Budget. Industrial growth in the first half of 1993-94 was just 1.6 per cent; but there are signs of a marked recovery in the winter, led by consumer demand. Rural outlets, in particular, are posting large sales increases as farmers spend some of the gains of the good harvests.

Indian companies are raising record amounts of capital: though some of it is being used to repay bank loans, some is intended for substantial projects. For example, no fewer than five oil refineries and

Continued on Page 2

■ Interview: finance minister Manmohan Singh discusses development and makes a five year prediction

'We will surprise ourselves and the world'

Mr Manmohan Singh, the finance minister, was interviewed by Richard Lambert and Stefan Wagstyl a few days after presenting his 1994-95 Budget, which sets out the government's latest plans for further economic reform. Here are highlights from the interview:

QUESTION: Was this Budget framed with political rather than economic considerations in mind?

SINGH: I think every Budget is a political document. The economy anyway does not function in a political vacuum.

Could you please comment on the fiscal deficit?

Well I would say that the fiscal deficit which has emerged in the current financial year is not a happy development. As I said in my Budget speech we have to get back to the path of reducing the fiscal deficits. But this year had peculiar circumstances largely because of the very sluggish industrial economy, which reduced the government's customs and excise revenues.

I could have cut expenditure further. But in the public sector we have cut expenditure to the bare bones, except for social sector expenditure. Cutting that would be economically as well as socially and politically an unproductive exercise. It would perpetuate the stagflation and low-level equilibrium with the fiscal deficit remaining as high as before. That would discredit the whole reform process.

The only effective way to get the economy out of stagflation was to create an enviroment which was friendly to higher growth. Now there are risks in what I have actually done. If for example we have a drought things could go wrong. But if we have a big drought, things could go wrong anyway. But today we have an insurance against the drought which we never had for many years.

Record foodstocks of 23m tonnes, idle industrial capacity, and record foreign exchange reserves. If we can ever bring about a balance between demand and supply at a higher level of activity then this is the year it could happen.

Hasn't over-spending also contributed to the size of the fiscal deficit?

It is true that our food subsidies, for example, have turned out to be much higher than expected. It has happened because it was an election year. The government raised prices paid to farmers but prices paid by consumers were not adjusted until last month. We did the same with the administered oil and fuel prices.

Will forthcoming state-level elections and the prospect of the next general election, due by mid-1996, effect policymaking?

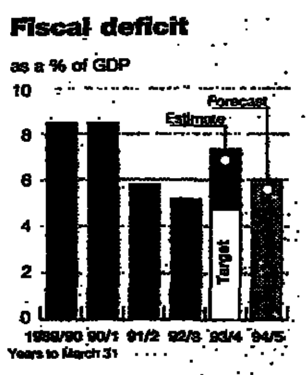
I think this is a normal cycle. We have this year four or five important states having elections. But I am heartened I am being criticised that the fiscal deficit is too much. That is a measure of the success of our programme. When I started I was accused of inventing the fiscal deficit to destroy the Indian planning system.

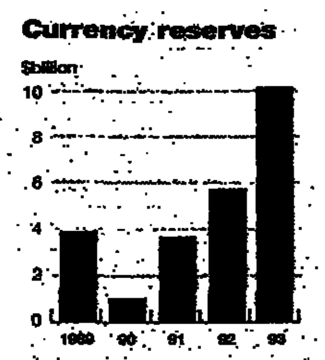
Looking at the reforms overall, what are the remaining challenges?

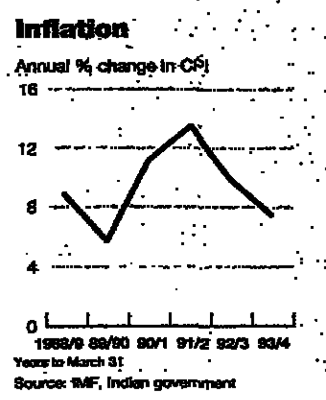
I have done a sweeping reform this year of customs and excise duties. In two more Budgets the process of tax reform can be completed. Capital market reforms have also

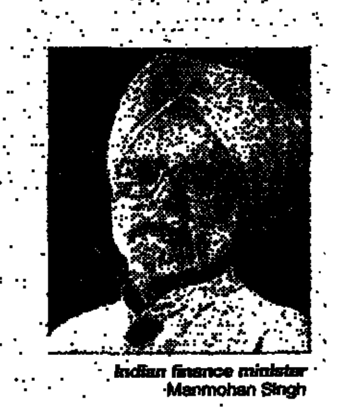
'We are now in a position to create a futures and options market'

gone pretty well, including deregulation, the establishment of the Securities and Exchange Board of India [the markets supervisor] and new codes of conduct. Our capital markets will function with greater transparency. The badla system [speculative forward trading in equities] has now been banned so that the bulk of deliveries are cash deliveries. We are now in a position to create a futures and options market.

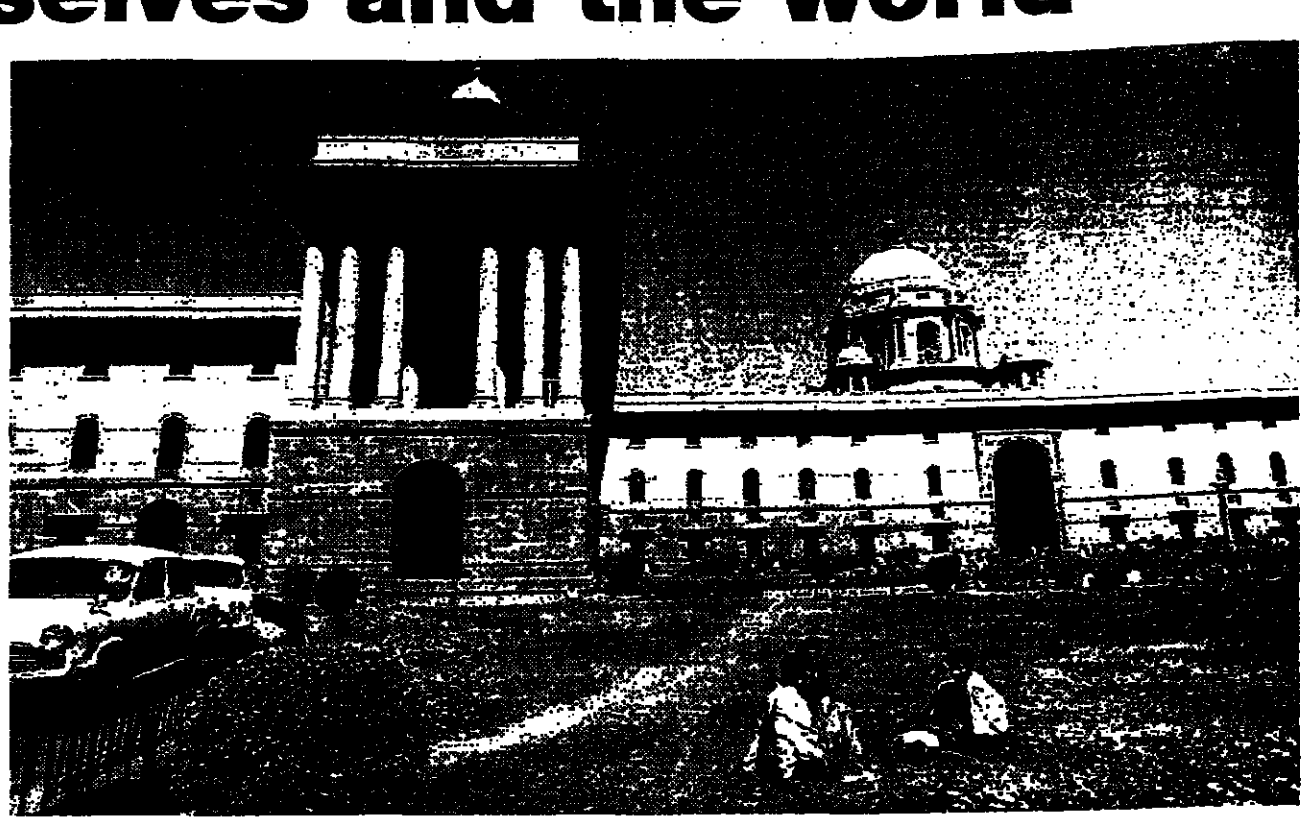








Indian finance minister Manmohan Singh



The Treasury building in New Delhi

The National Stock Exchange, which links trading across the country and should have started operation in April, will start operating in the next few months. As regards the banking sector, the bill to allow the government to disinvest up to 49 per cent in public sector banks has just been passed. The State Bank of India already had legislative permission and has raised Rs30bn. That process will now start for other banks. We will have private sector banks. Banking is no longer a monopoly of the government. International banks will be more active.

Next on our agenda is the insurance sector. We have a report I propose to deal with [which suggests liberalisation]. Since it was our party which nationalised the banks and insurance I have to create a new climate, therefore I want an extensive debate on insurance over the next two or three months. As for exchange control, we have now a system of current account convertibility. The next logical step is capital account convertibility. But I would like to wait for some time more.

The prerequisite is a credible fiscal and monetary stance. As far as foreign trade is concerned, the over-protection of industry is being reduced and reduced fast enough. The levels of protection which will prevail in the longer run, in two years we will reach them. We still don't import consumer goods but I have started a debate. I feel confident we can manage that too. Once that comes about I think foreign trade system will have only moderate tariffs and the exchange rates will be the only determinant of trade flows. We are 70-80 per cent of the way there.

We must also remove restrictions on farmers to enable them to export and have an import/export regime with moderate tariffs and without quantitative restrictions. Finally, there is exit policy [redundancy laws].

This is a sensitive issue, even though the present rigid system is hurting labour itself because it gives our employers a strong disincentive to employ more labour even where more labour is justified. But it takes time to carry conviction in a country of high unemployment.

If we reach an economic growth rate of 6 per cent then I think we will reach conditions where jobs are being created and we can make changes. But we are still not there so that's why we are deliberately going slow in this area. To help this change, we have to establish social security institutions. We have an industrial relations bill which talks about all these things including getting flexibilities.

I have to convince our Cabinet colleagues. I feel this thing also can be tackled in less than a year's time. I think this whole programme should be completed in less than two years' time, before we go to the next general election in 1996. But we are deliberately not adopting the shock therapy of the kind that has been advocated. Because I believe civilis-

'I can reduce interest in a big way if I have the freedom to disinvest in a much bolder way'

ation is a very delicate plant. It's very easy to destroy it, especially in a large and complex country like India.

Can you comment on the role of foreign capital?

As far as foreign direct investment is concerned, we welcome it, including foreign majority participation for which permission is automatic in most sectors. We have also opened markets to foreign institutional investors in the past year. People have warned me that these are fair-weather friends so we have moved cautiously. But these investors have behaved responsibly.

What is your attitude to disinvestment on a larger scale ?

I said in my Budget speech that in order to reduce my deficit in a big way I must do something about my interest burden which is a heritage of the past. Given my options I can reduce interest in a big way if I have the freedom to disinvest in a much bolder way. How bold that is I will have to test with my Cabinet colleagues and party. We have got consensus on disinvestment.

But the other ministers would like to keep the proceeds for themselves. Politics is about patronage and patronage is about spending. So they say if we disinvest you allow us to expand our empires. I have now to persuade them to use the proceeds to retire debt.

How does India compare with other developing countries, including those in east Asia?

I certainly would like the pace of reform to be faster in India but we have to realise we are a large and complex country trying to carry out social and economic transformation in the framework of an open society. Maybe the changes we make will be more durable than changes in countries where you can carry out reform by fiat.

Development is a complex process, it cannot simply be imported. We have made mistakes for example in not universalising elementary education. At the same time given our size, given our natural resources, given our science and technology infrastructure, our skilled manpower, I have a gut feeling that India in the course of the next five or six years will surprise itself and surprise the world also.

An air of quiet satisfaction

Continued from Page 1

nine petrochemicals complexes with investment totalling $30bn are planned, though not all are likely to come to fruition.

For foreign investors, India looks more promising than at any time since independence. With signs of the Chinese economy over-heating, many international investors looking for alternatives among developing countries are turning to India and its vast unexploited market of 890m people.

Since mid-1991, India has approved foreign direct investments totalling $5bn, including over $3bn in the past year. Much of it is concentrated in power, a top government priority.

The amount actually flowing into India is also growing – from $148m in the 1991-92 to an estimated $1.5bn in 1993-94.

Foreign financial investment has mushroomed, since India in late 1992 opened its stock market to foreign institutions and eased rules for Indian companies to issue paper overseas. Investment from these sources has soared from virtually nothing three years ago to an estimated $3.5bn in 1993-94.

The growth has been so fast that it has clogged the Bombay market's settlement machinery.

Across India, there are high-growth cities where reforms are already bringing wealth. In Bombay, businessmen are no longer embarrassed about being rich. "Before even if you had a Mercedes, you kept it in the garage," says one," Now it's okay to take it on the streets."

Jobs for well-educated commercially-minded young people are growing fast, particularly in financial services, advertising and other business services. Bombay yuppies no longer limit themselves to Indian-branded goods but shop for foreign names, often abroad, but increasingly in India, where, for example, Lacoste T-shirts, Ray-Ban sunglasses and Pierre Cardin ties are all available.

The same is true in affluent corners of Delhi and in Bangalore in the south. Some rural districts also share in the spreading wealth, notably in the western states of Gujarat and Maharashtra, and in Punjab in the north, where farmers have grown rich supplying the nearby cities. Scores of entrepreneurs are benefiting from the expansion of exports – up 21 per cent in the 10 months to the end of January – and from exporters' tax-breaks. "If you can't make money exporting from India now," says Mr Narayana Bhatt, a Bangalore-based exporter of leather garments, "then you should not be in business."

What is to prevent the activities of Mr Bhatt and thousands like him from pulling India towards full-scale economic modernisation? Unfortunately, there are potential blocks on the road to modernity, and not all of them are being tackled with sufficient vigour by the government.

First, while the government cut public borrowing in the early stages of reform, it is now relaxing the purse strings. The biggest surprise in last month's Budget was the revelation that the fiscal deficit for the year 1993-94 would reach 7.3 per cent of GDP – compared with a target of 4.7 per cent. The target for 1994-95 was set at a generous 6 per cent.

Mr Singh defended his decision by saying that there was scope in the slow-moving economy for pump-priming. The underlying reason is that the government does not wish to reapply the brakes so close to important state elections this year and the next general election. The danger is that inflation – now running at 9 per cent annually – may rise, adding to the sufferings of India's poor. It would only take a bad monsoon or an external shock such as a rise in oil prices to knock the government's plans off course.

Poor infrastructure is an even greater hurdle. While India is making progress in trying to attract private investment into power projects, it will be the late 1990s before these new schemes make much of an impression on the general shortages. The government originally planned to install 48,000 megawatts of generating capacity in 1991-96, a figure cut to 30,500MW because of financial constraints. However, a review late last year showed the public sector would only build 13,000-14,000MW; private companies would have started work on stations with an output of 3,000MW.

The inadequacy of telecommunications is equally acute, with investment delayed by a combination of legal disputes over contracts for mobile telephone networks and political argument about privatisation policy. The liberalisation of investment in roads, rail and ports is even further away – though domestic air travel has quite successfully been opened to privately-owned carriers.

The inefficiency of publicly-owned services and industries remains a strong drag on the economy, accounting for nearly half the nation's capital but producing only about 27 per cent of its output. The government has sold stakes in leading state-owned enterprises, including banks, steel operations and electronics manufacturers. But ministers have opposed selling more than 49 per cent of a unit for fear of losing control. As Mr C Rangarajan, the governor of the Reserve Bank of India, the central bank, says: "There's not been much movement on reforming public sector units, we recognise that. Partial disinvestment is where it stands."

Ministers are also reluctant to liberalise India's restrictive labour laws, which seriously limit employers' rights to make surplus workers redundant. While companies can find ways around the law – through voluntary schemes and redeployment – large-scale dismissals are virtually impossible.

Finally, India's progress could be held back by the low educational standards of much of its population. Only 52 per cent of Indians can read, compared with about 75 per cent of Chinese. It will take time to integrate the remainder, or even their children, into a modern economy.

None of these medium- and long-term problems is insoluble. India has one of the best-educated elites in the developing world, including civil servants, businessmen and technical experts. Indians living abroad are a fund of energy and ideas, as well as capital. Many of these people recognise the difficulties the country faces – and the need for further radical reforms. What is missing is any widespread sense of urgency. India, it seems, will modernise – but at its own steady pace.

KEY FACTS

Area	3,288,000 sq km
Population	870 million
President	S D Sharma
Currency	Rupee
Average exchange rate	April-March 1993 $1=Rs 31.12
	22/3/94 $1=Rs 31.13

ECONOMY

	1992/93[1]	1993/94[2]
Total GNP (current $m)	238,159	NA
Real GDP growth (%) [2]	4.0	3.8
Exports ($m) [3]	18,537	15,682
Imports ($m) [3]	21,882	16,414
Annual average % growth in		
Consumer prices (ind. wkrs, %)	6.1	8.6 [4]
Wholesale prices (%)	7.0	8.2 [5]
Industrial production (%) [6]	1.8	1.6
Agricultural production (%)	3.9	-0.9
Direct investment ($m) [2]	343	1,500
Portfolio investment ($m) [2]	242	3,500
Share price index (%)	-48.5	81 [11]
Discount rate end period (%) [7]	12.0	12.0
Lending rate average (%) [7] [8]	18.92	16.27
Money growth M3 (%) [10]	14.2	14.1
Foreign currency asts gwth (%)	38.2	69.9
Reserves minus gold ($m)	5,757	10,199
External debt ($m)	76,983	NA
Current account balance ($bn)	-5	-2.4
Main trading partners (%)	Exports	Imports
EC	29.1	31.0
US	18.9	8.9
Japan	9.5	6.9
Former USSR	9.2	2.4
Germany	8.0	8.5
UK	7.0	7.8
United Arab Emirates	4.2	4.6

(1) April to April. (2) 1993/94 figure is an estimate.
(3) 1993/4 figure April-Dec only. (4) Dec 1993 figure only. (5) As at 29 Jan 94. (6) Average index April-Oct only for 1993/94. (7) Calendar year.
(8) 1993 average to November. (9) Feb 4 for 1993/4 figure.
(10) April to Jan for 1993/94 figure. (11) % Growth between 31/3/93 and 7/1/94.
Sources: IMF, EUI, Datastream, World Bank, Indian govt., IIF

British-Indian relations are being rebuilt on new foundations, writes **Alexander Nicoll**

Friendship and an equal partnership

The Royal Yacht, anchored at Bombay last November, was a potent symbol of the changes in Britain and India during this century, and in the relationship between the two.

Far from being an emblem of empire, the Britannia was an instrument of business. Parties and seminars on board were attended by 1,400 people, including 300 visiting British businessmen, and contracts worth £1.2bn were signed.

The week in Bombay was the highlight of the first year of the Indo-British Partnership Initiative, an unusually energetic and close exercise in boosting bilateral trade and investment which has already produced significant results. Meeting last month in London, Mr John Major and Mr PV Narasimha Rao, the British and Indian prime ministers, decided to extend the initiative.

Since India gained independence from British rule in 1947, relations had been "friendly but distant," according to British officials. Apart from the awkwardness inevitable between former imperial power and subject state, India had opted for Jawaharlal Nehru's brand of self-sufficiency and socialism, which led it to be much closer to Moscow than to the west.

By 1991, however, India found itself having to face a new world.

The Soviet orbit, which had been a central element of its foreign policy as well as its foreign trade, had disintegrated.

And despite sporadic, half-hearted attempts at reform, its economy had finally slipped into a crisis which threatened financial collapse similar to Latin America's in 1982, but in a country of nearly 900m, many of whom already lived in poverty.

When Mr Major visited India in January 1993, Britain desperately needed to boost export orders for British companies to help it out of a long recession. The government in New Delhi had shown surprising determination to shape a new economic structure. Mr Major, guest of honour at the annual Republic Day ceremonies, decided to make his visit into a high-powered trade mission from which sprang the IBPI.

The visit crystallised a dramatic improvement in bilateral relations, furthered by a rapid series of ministerial visits. Britain's home secretary, foreign secretary, Lord Chancellor, trade minister and others have all been India's guests and, in addition to Mr Narasimha Rao, ministers including Mr Manmohan Singh, architect of economic reform, have visited London. Virtually all such visits over the past year have included activities connected with the IBPI.

Mr Robert Evans, chairman of British Gas, was asked to lead the British side. His Indian counterpart is Mr Jamshed Irani, managing director of Tata Iron & Steel. The two men asked other business leaders to become patrons of the IBPI – making it essentially a private sector-driven exercise but with strong governmental involvement on both sides.

Among the patrons are to be found British companies which already had considerable experience in India – cumulative UK investment in India is estimated at about pounds 2bn – and those which are at the forefront of UK export efforts around the world, such as GEC Alsthom, Cable & Wireless and British Aerospace. On the Indian side are giants such as Ashok Leyland and Bajaj Auto, as well as companies with old UK links such as Dunlop India, Hindustan Lever and Williamson Magor. The Confederations of British and Indian Industry are both patrons.

John Major and PV Narasimha Rao: a flurry of exchanges (Picture: AP)

In addition to several missions of business people to Britain and to India, the IBPI has done considerable work on identifying business opportunities for British industry in individual Indian sectors, such as power generation, agro-food processing, manufacturing technology and communications, financial services and infrastructure.

If the IBPI simply brought together the biggest companies, however, it would have limited value since many of their top executives on both sides were already well attuned to the opportunities afforded by India's decision to open its economy.

An important purpose has been to raise awareness among smaller and medium-sized companies with less extensive experience. The IBPI says nearly 1,000 British companies have attended its seminar programme on doing business with India, and that 2,000 people visited British technology exhibitions in Bombay and Bangalore.

Mr Irani, in a report to the prime ministers, said: "The IBPI has been a truly unique process, and has been successful in making Britain aware of the 'new' India, bringing with it new opportunities. On the other side, India has become far more aware of British capabilities, technologies and competitiveness."

Bilateral trade, and British investment in India have increased substantially over the past year, although it would be difficult to estimate how much of the gains have been due directly to the IBPI. British exports to India grew 20 per cent in 1993 to £1.13bn, and Indian exports to Britain rose 26 per cent to £1.09bn.

In 1991, new British investment in India was virtually at a standstill at only £7m. In 1992 it rose to £26m, and last year approvals jumped to £139m, made up of more than 170 new collaborations.

The deals done so far vary widely.

A number of British companies have increased their stakes in Indian subsidiaries

The biggest are in power generation, which also offers the best potential for British companies in the future. Rolls-Royce Power Generation Systems signed three contracts in November to build power stations worth a total of £660m, and in March another Rolls-Royce subsidiary, Peebles Electric, signed a technology transfer agreement under which Kirloskar Electric of Bangalore will be able to build transformers.

GEC, which had already been involved in a number of agreements, signed a memorandum of understanding in March under which it will build a 1,000MW coal-fired power station in Maharashtra state, and will have a $100m equity stake. National Power, PowerGen and National Grid have also signed contracts.

Other industries in which UK investment deals have been signed include liquor, construction, leisure, finance and aerospace. A number of British companies, including Cadbury Schweppes, Coats Viyella, Reckitt & Colman, Glaxo, Bush Boake Allen, BP and Castrol have increased their stakes in Indian subsidiaries from the previous permitted limit of 40 per cent up to 51 per cent. Among interesting joint ventures is the planned refurbishment of Moscow's old market region by Apollo Enterprises of India in partnership with Bovis of the UK.

Clearly, the IBPI can by no means take the credit for all recent Indo-British transactions. But it does provide a useful framework for companies and, importantly, focuses the attention of companies and governments on the impediments to business as well as the opportunities.

The British side is most concerned about intellectual property rights, high tax rates and custom duties, labour laws, bureaucracy and exchange controls – all issues which have been widely identified both inside and outside India as vital for the government in Delhi to address.

The Indian side worries about the cost of British technology, equipment and services. It is also concerned that "there is a preference among British companies for specific contracts rather than long-term investment in India, for new-build rather than refurbishment and for sales to India rather than joint manufacturing ventures," according to the IBPI report to prime ministers. There are also problems with textile exports to the UK because of sudden changes in quota classifications.

For the next year, the IBPI plans to continue its work but to make it more sector-specific, to reach more companies and to encourage greater participation by non-resident Indians. The private sector leaders believe ministerial involvement is important and that India's economic reform programme must continue. "Faster and simpler negotiating and approval procedures would enable agreements to be realised more quickly," the leaders said, adding that commercial disputes should be resolved more quickly in the courts.

Underlining the belief of the participants in the success of the IBPI, Mr Irani and Mr Evans wrote: "Although India and Britain have special links which have given the IBPI a unique aspect, there is no reason why it should not be a model for relations between either India or Britain and other trading partners."

Shiraz Sidhva reports on the unions and the need to cut jobs

The pressure is mounting

Trade unionists fear that India's chronic problems of *unemployment and underemployment* will be exacerbated by the structural reform programme.

Openings for India's workers, who increase at the rate of 2 per cent a year, may be curtailed by technological change and a tougher line on redundancies.

Apprehensive of labour militancy and its political fallout, the government has been dragging its feet over redundancy policy. Officials in the labour ministry are reviewing the whole gamut of industrial labour laws, to ensure they are in line with the other reforms, but the changes will be slow in coming.

The retrenchment of labour will eventually be given a legal framework, and the law relating to the regulation of trade unions may be revised, say officials in the labour ministry. The government believes that the reforms will benefit labour, at least in the long term.

"Trade unionists may be worried about the effect of reform on labour in the short term, but in the long term, the government hopes that the reforms and the encouragement of foreign investment will lead to a substantial expansion of employment in more labour-intensive industries," says a senior labour ministry official.

Union leaders point out that employers can already exploit workers

Recognising that the reform process would increase structural unemployment, the government established the National Renewal Fund (NRF)in 1992, a social safety net instrument to provide compensation and transitional support to workers who lost their jobs.

The NRF has two constituent windows:

- the National Renewal Grant Fund (NRGF) compensates workers affected by the closure of both private (those under liquidation orders from the state governments) and public sectors, and provides payment for voluntary retirement schemes by public sector units.
- the Employment Generation Fund (EGF) provides grants for retraining, redeployment and approved employment generation schemes. But labour leaders complain that the Fund's safety net has been inadequate for the loss of 1m jobs in 1992-93, swelling the country's unemployed to 18m. "It should be termed the National Retrenchment Fund, because the total compensation package far exceeds the entire corpus of the fund," says a senior labour leader.

Despite the World Bank suggestion two years ago that a suitable policy be framed to facilitate industrial restructuring, including a framework for reducing barriers to reducing industrial manpower levels, government efforts to introduce labour reforms and an exit policy have been minimal.

"The government has done nothing to protect the workers from retrenchment, even though the law does not allow retrenchment of workers," admits a Congress (I) MP. "The government is shying away from an exit policy because it is afraid to antagonise labour, but workers continue to lose jobs because businesses that are unviable simply shut down."

Mr CP Rangarajan Kumaramangalam, a Congress (I) MP and former union labour minister, says that changing labour laws alone will not solve the problem of surplus labour. He has suggested that the government should try to persuade management and labour to regard each other as partners in progress, instead of adversaries.

He criticises the negative overtones of the term "exit policy" (the official euphemism for labour reductions), arguing that labour, like capital, can be redeployed rather than simply rejected. "Good labour relations make for good business," agrees Mr Krishan Lal Chugh, chairman of ITC, the Calcutta-based company, which last year reached a landmark settlement hinging on improved productivity.

Industrial relations have remained mainly peaceful in the last two years, despite the loss of jobs as a result of structural reforms. The loss of man/days in 1992-93 declined to 21.15m from 34.57m in 1991-92.

The main bone of contention between trade unions and government is the closure of the economically sick public sector units. "The government wants to close down the sick mills, while we are fighting for their revival," says Mr Chittabrata Majumdar, secretary of the 1.1m strong Centre of Indian Trade Unions, affiliated to the Communist Party of India (Marxist). "We have put forward a number of suggestions how sick mills can be run viably, but they do not care to listen, and have only taken steps which have favoured more sickness."

Union leaders point out that employers can already exploit the workers, using voluntary retirement schemes, increasing contract and casual labour that can be easily retrenched, and subcontracting production. "The government has to evolve a practical policy to tackle the loss of jobs or face a worker upheaval", a union leader says. Last year, the unions won an important victory when they stalled the introduction of the Industrial Relations Bill in parliament.

The Bill sought to delete a section of the Industrial Disputes Act, requiring government clearance for the closure of a company employing more than 100 workers.

Says a labour ministry official: "The government may seem ostrich-like about labour reform because it is caught between political considerations at home and pressure from foreign agencies to initiate it. But it's not as if we are neglecting this crucial area of reform."

The financial institutions have a wide choice of investment options, says **Sara Webb**

A multi faceted jewel in the crown

India has earned the nickname of "jewel in the investment crown" among those emerging market specialists who scour the globe for new and exciting investment opportunities.

Lured by the combination of the government's economic reform programme, relatively attractive growth prospects, a vast array of listed companies, and a gradual shift towards more modern stock market practices, foreigners have been quick to take advantage of the various routes available – either investing directly in domestically-quoted shares and internationally-traded GDRs (global depositary receipts), or indirectly via the numerous collective funds that have been launched in the last year.

Fund managers based in the UK point out that India has several attractive features. They are encouraged by the process of economic liberalisation set in train in 1991 by Mr Manmohan Singh, the finance minister. Such reforms were born of necessity after India faced a balance-of-payments crisis and came close to defaulting on loans. But three years into the reform programme, many UK investors believe the process is irreversible, especially since both the ruling Congress (I) Party, as well as the opposition BJP are in favour of economic reform.

Mr Joe Scott Plummer, chairman of *Martin Currie Investment* Management (MCIM), says the Edinburgh-based fund management group decided to launch its Indian Opportunities Fund last July for several reasons.

Bangalore builders: at last the money is flowing

"Our prime reason [for investing in India] stems from the major programme of deregulation and the more efficient and effective management of the economy forced on India by the IMF. India recognised the advantage of international capital, and changed the regulations to allow it in," he said. The Martin Currie Indian Opportunities Fund raised $100m originally (which rose to $150m in value), and is now raising an additional tranche of $100m-$150m.

The process of liberalisation seems set to continue. The recent Budget (in early March, 1994) was regarded as "pro-industry" with measures to cut customs duties and taxes, encouraging the import of goods and spare parts.

If foreign investors have reservations, they are more to do with the fact that the reform process is associated so closely with the finance minister. One UK-based portfolio manager points out, "the danger is that the reform process is so inextricably linked with [Manmohan] *Singh that it would* clearly be a worry if he were to go, for whatever reason".

Mr Jeffrey Chowdhry, director at Barclays de Zoete Wedd Investment Management *Limited* which recently raised $510m for its India Fund, expects economic growth to be about 5 to 5¼ per cent a year over the next five years, which in the context of other Asian economies is not particularly high.

But he points out that the growth in the Indian economy "is dependent to a lesser extent than, say, the Latin American countries and NICs (newly industrialised countries) on growth in the outside world, because India has nearly 900m consumers of its own". Of particular interest to investors, he says, is the presence of a rapid*ly-growing middle class, esti*mated to be over 200m and increasing at 12 per cent a year.

The inducement of a very large population with rising aspirations and increasing spending power may be a familiar one for international investors, and is frequently *cited in the case of China.* But emerging market specialists argue that the sheer size of India's stock markets and the long-established tradition of *investing in equities give it* an added advantage over China.

The Bombay stock exchange was set up in 1875 and with nearly two dozen stock exchanges spread across India, investors have about 7,000 stocks from which to choose, although in terms of liquidity and available research the "universe of investments" is probably closer to 1,000 companies, according to Mr Chowdhry.

China, by comparison, has more than 200 listed stocks, although several companies have overseas listings. "India has the advantage of a long tradition of accounting standards, whereas China has a lot of opportunities, but without the tradition" says one London-based emerging markets specialist.

In spite of the large assortment of Indian listed companies, some fund managers have *reservations about the high* price-earnings ratios. At present, medium-sized companies are seen as offering better value for investors.

Mr Scott Plummer at Martin Currie points out that "usually the pattern has been with emerging markets that as foreigners discover a market, they tend to go for the liquid blue chips". However, he adds that while the big stocks have p/e ratios in the "high 20s ... the second league companies have lower p/e ratios in the region of 15-20 times".

Overseas investors must register as Foreign Institutional Investors (FIIs) in order to invest directly in the domestic stock markets. Some of these FIIs have been fairly active in the domestic market, although in recent months, the long *delays in settlement have hin*dered the process. These problems are being addressed, but are still seen as time-consuming and inconvenient particularly in such a paper-intensive stock market. Mr Chowdhry of BZW says "it has been estimated that about 400 pieces of paper are needed for each $1m transaction".

Talk of eurobonds raises questions about India's credit rating level

The other main way for foreign investors to gain exposure has been through the *international* equity route, which has the advantage of providing liquidity and avoiding the Indian domestic settlement problems.

Over the last couple of years, several of the biggest Indian companies have turned to the international capital markets with international share offerings.

In 1993, a total of about $900m was raised in this manner by Indian companies, and a similar amount in the first couple of months of this year as more and more companies rushed to take advantage of international investor interest.

As a result of this spate of offerings, India's ministry of finance decided in February to *impose informal – albeit temporary* – restrictions on Indian companies seeking to raise funds abroad as it wanted to slow down the deluge of international equity and convertible bond issues flooding on to the market.

While international investors have had a wide choice of equity and convertible bond offerings, Indian companies have so far shied away from launching conventional eurobond issues. The Industrial Development Bank of India (IDBI) was set to launch a eurobond this month, but held off because of the volatile conditions in the international bond market.

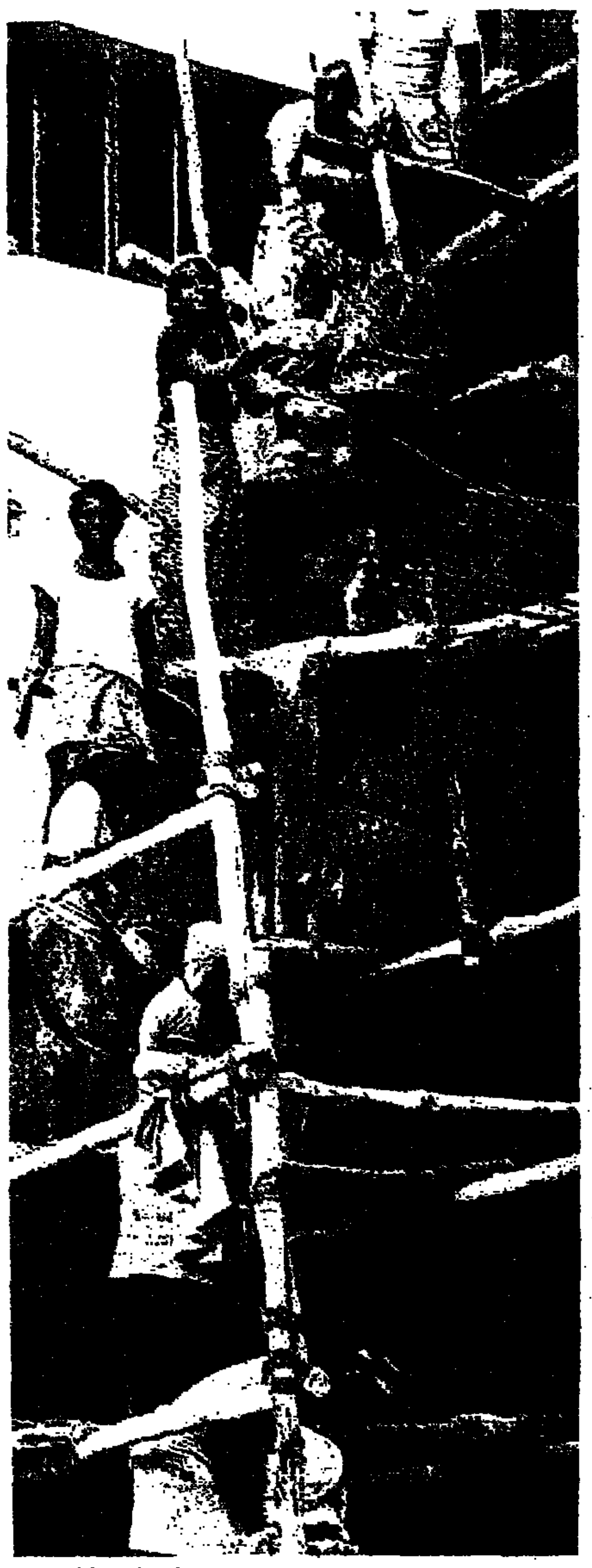
However, talk of possible eurobond offerings has raised the question of whether India's credit rating is likely to be *upgraded given that it had* deteriorated from investment grade to speculative grade after the balance-of-payments crisis.

Some of the more optimistic market participants appear to regard India as another Mexico – in other words, as a country with the potential to achieve *investment grade thanks to its* economic reform programme.

However, the credit rating agencies seem rather less bullish on this front. India's *long-term foreign currency* debt rating is Ba2 (from Moody's) and BB+ (from Standard & Poor's), both of which are below investment grade.

Mr Guido Cipriani, country analyst at S&P, points out that the stable outlook on S&P's BB+ rating indicates that India is unlikely to be upgraded for some time, although he adds that the agency is due to meet with policy-makers in India to discuss the reform process.

While acknowledging that the government has taken several important steps in the right direction, he still voices concern about subsidies and overmanning in the public sector, and the need for further progress on the fundamental structural reform of the public sector – a process which could take several years.



On a Delhi building site

Foreign financial services are sprouting in Bombay, reports **R.C. Murthy**

Welcome to the big battalions

Foreign financial services companies are rushing to open up shop in Bombay.

The caution which characterises *the approach of companies* in other industries to India is largely absent, as investment bankers, brokers and others hurry to find the best local *partners and staff.*

Major overseas investment banks are anxious for gain }a foothold in India. Tiny by international standards, local merchant banks have opted for joint ventures with their foreign counterparts.

J.P. Morgan of the US took the plunge }late last year with a 40 per cent purchase of ISEC, an investment bank floated by the Industrial Credit and Investment Corporation of India, a diversified development bank.

General Electric }and Housing Development and Finance Corporation are floating a joint venture for hire purchase credit and other financial services.

The latest to arrive are Peregrine of Hong Kong and Daewoo of Korea.

Peregrine and ITC Classic, a subsidiary of ITC, the Indian *affiliate of BAT Industries*, have formed a 50:50 joint venture. }

Daewoo and CRB Capital Markets, a Bombay securities company, }have signed a memorandum of understanding to collaborate and are yet to work out details.

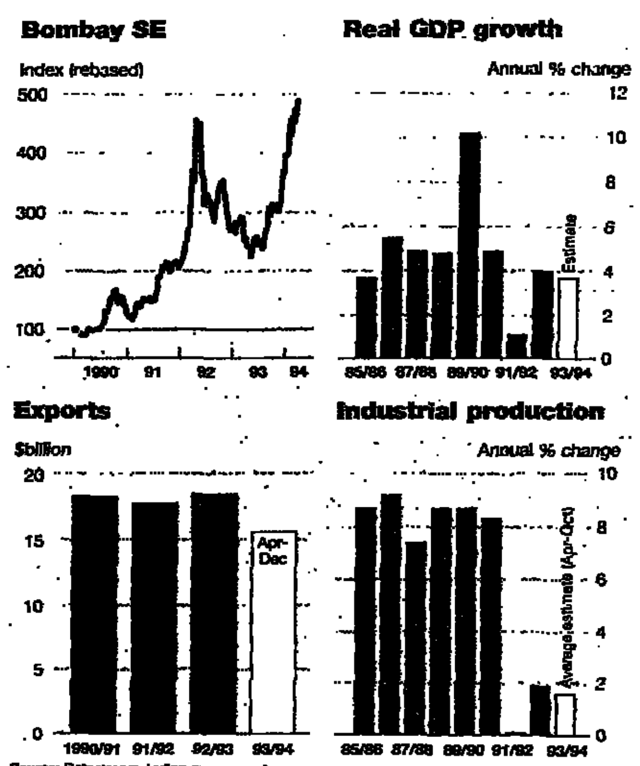
The oldest informal association is a decade old – between DSP Financial Services, an offshoot of an old-established Bombay brokerage, and Merrill Lynch of the US. They now urgently need a formal arrangement to transfer }new skills and technology and compete with the new investment banks coming up in India.

Another well-established relationship – between Lazard *Brothers of the UK and Credit*-capital Finance Corporation, an investment bank, has also recently been strengthened with the British merchant *bank lifting its stake at CFC to* 40 per cent.

Ind Global Financial Trust, promoted by Mr R. Sankaran, a former Standard Chartered executive, is associated with Salomon Brothers. Infrastructure Leasing and Financial Services, after a brief honeymoon with Bear Sterns, decided to join hands with Orix, the most active Japanese financial company in India.

Kotak Mahindra Finance of Bombay and Goldman Sachs are currently in discussions on whether to finalise a formal arrangement. The focus now is on insurance. World insurance majors, Eagle Star, Sun Life, New York Life, AIG and Cigna have sent representatives to India to scout for local collaborators.

Sun Life has announced a tie-up with State-owned Life *Insurance* Corporation. Eagle Star, a BAT Industries subsidiary, will form a joint venture with ITC, once the guidelines are announced.



Source: Datastream, Indian government

New York Life is talking to HDFC to form a joint venture. The most visible impact is on the stock market. Nearly 150 foreign institutional investors, registered with the Securities and Exchange Board of India, the market watchdog, have bought corporate stock on Indian bourses worth nearly $1.5bn since the beginning of this year.

The inflow boosted the foreign exchange reserves, which hit a peak of $14bn. The capital flows were halted abruptly as custodial and depository services were unable to cope with the rush. The inflow will get a new fillip after these services are back to normal. Institutions can now either buy on the bourses or negotiate directly private placement of capital by companies.

India opened its doors to foreign brokers late last year. Australian-owned Marlin Partners, Kleinwort Benson, Crédit Lyonnais Securities and James Capel, a Hongkong and Shanghai Bank subsidiary, were the first allowed to handle foreign portfolio investment into Indian stocks through local brokers. Five others, including Jardine Fleming, have since won regulatory approval.

The mutual funds market was opened to the private sector late last year.

Morgan Stanley, the US investment bank launched the first first domestic foreign-managed fund and attracted record subscriptions of more than Rs.10bn. Tata, the largest Indian business group, is to offer a 20 per cent stake to Kleinwort Benson of the UK in an asset management company to be promoted by Tata. Merrill Lynch is planning to float an asset management company with Indian partner DSP Financial Services.

Patrick Harverson discovers a dramatic change in US sentiment

The Americans are coming

Viewed from the US, India is a country of enormous potential. Historically, however, the hostility of Indian governments to the free market and to the foreign business community has kept US companies and investors from seeking to take advantage of that potential.

Now, after several years of a gradual economic liberalisation policy that has opened up Indian markets to foreign capital, US money is pouring into India in unprecedented amounts.

Mr Anil Trigunayat, the commercial consul at the Indian Consulate in New York, says that US private sector investment in India between 1992 and 1993 exceeded the total amount of money invested by US companies in the previous 40 years.

In the first 10 months of last year, for example, $800m was invested in India by US companies, and another $2.2bn was in the pipeline at the end of the year. By contrast, in all of 1990, Mr Trigunayat says, total US investment measured just $90m.

As well as the host of giant blue-chip corporations which have long ties to India (such as Citibank, General Electric and IBM), scores of other big US companies have been moving into – or in some cases, returning to – India, through purchases of majority stakes in Indian businesses, or through the establishment of new ventures.

According to Precision Sourcing International (BSI), a New York based consulting company which works with US companies in India, among those which have recently raised their interest in Indian companies to majority shareholdings are Colgate Palmolive, Whirlpool, Chevron, Pepsico, Procter & Gamble and J Walter Thompson.

Others which have set up joint ventures include Duracell, Goodyear, Mobil, and Alcoa. In the financial services industry, the Capital Group, Soros Fund Management, and Kemper have all created asset management businesses with Indian partners over the last year.

Mr Richard Hedberg, vice president of J P Morgan, which has an investment banking joint venture in India, says interest in India has snowballed in the past two years. "It started slowly, because everyone didn't know [what the reforms] meant, and you had a lot of left-over biases. Then, about a year ago, all at once a lot of US companies started increasing their minority ownerships to majority ownerships. Then you saw the snowball headed down the hill."

Mr Robert Eichfeld is equally upbeat about India's economic outlook

US money is flooding into India primarily because the government is opening up the domestic financial and consumer markets, albeit gradually. Mr Mann Bammi of PSI says: "We have been involved in assisting US corporations in India since 1989, and have a witnessed a sea change in the economic and business environment. Rather than treat business as a necessary evil, the government sees business as a critical part of the solution of India's problems."

Mr Bammi's comments are echoed throughout the US business community, which applauds the economic reforms introduced in the past two years by the administration of prime minister Mr PV Narasimha Rao and his finance minister, Mr Manmohan Singh.

"Clearly the business climate has changed," says Mr Neville Isdell, vice president responsible for Coca-Cola's operations in India. "That is the direct result of the policies of the current government. They have really attacked the major areas that were holding back investments by international companies."

Mr Robert Eichfeld, head of Citibank's operations in India, where the company has a long-established consumer banking and corporate banking business, as well as a unit developing banking software, is equally upbeat about India's economic outlook, especially in the light of the February 28 budget presented by finance minister Singh. "The feeling is that the reforms are now pretty much irreversible in terms of direction, no matter what might happen politically. This is the fourth reform budget in a row."

Interest in India among US companies is especially strong in the consumer goods sector, which is hungrily eyeing India's vast, well educated, increasingly prosperous middle class. In consumer goods, the impact of liberalisation was especially significant, because recent reforms mean that foreign companies can now sell their products in India under their own brand names.

Coca-Cola, for example, has wasted little time in returning to India (it left with many other US companies in the late 1970s when the business climate turned hostile). Last October, the company relaunched the Coca-Cola brand in India, and a month later it bought the brands and trademarks of Parle, the biggest Indian soft drinks manufacturer. Also last year, Coca-Cola built a new beverage blending plant outside Poona.

Pepsico is also moving aggressively into India. As well as its bottling plants, snack-food business and tomato paste manufacturing plant, Pepsico has just received clearance to set up a holding company with $95m in capital that is already negotiating to buy some of India's smaller soft drinks companies.

Pepsico has also received permission from the government to set up Pizza Hut and Kentucky Fried Chicken restaurants.

Ensuring that the notoriously cumbersome Indian bureaucracy handles foreign businesses efficiently has been a big part of the government's liberalisation programme, and Mr Suman Sinha, head of Pepsico in India, says approvals for the company's recent expansions were granted and processed in just six weeks.

Foreign companies can now sell their products in India under their own brand names

This contrasts greatly with the pre-reform days, says Mr Sinha. "In the past, if we got [approval] in three years it would have been a miracle."

While the business climate has changed greatly, US companies still have their concerns about doing business in India.

The country's infrastructure – particularly transportation and telecommunications – leaves much to be desired. Tension between the different religious communities, which has broken out into violence several times in recent years, is also a worry for US businessmen.

And on the economic front, the recent budget, which placed the emphasis on economic growth over fiscal rectitude, raised some eyebrows. "The main concern is that there is still a large budget deficit that is going to have to be covered at some point in time," says Mr Eichfeld of Citibank.

Moreover, the political situation, while stable now, could give cause for concern if Mr Rao's government runs into trouble. Asks one New York banker: "Will there be political stability for the long-haul? Will the reforms continue? And can people count on being able to make long-term decisions now?"

Yet, these concerns aside, US companies are bullish about India, a country with a well-educated and skilled pool of labour, a British-based legal and accounting system, and an English-speaking business and political community. All these factors, plus the steady liberalisation of the economy, and a business-friendly government, are in India's favour.

Mr David Thomas, head of Procter & Gamble's Indian operations, says: "If India can build on this base through the efforts at deregulation, and involvement of foreign and Indian private enterprise in the creation of a national infrastructure, there is significant potential for growth. Asian 'tiger' countries have shown the way, and there is no reason why India should be an exception."

Arun Singh explains the legal framework for foreign companies

The path becomes smoother

It is now much easier for foreign investors to establish operations in India, but there remain many regulations which have to be followed.

Since liberalisation in July 1991 regulations have been streamlined and foreign companies have been actively encouraged to enter the Indian market. Foreign companies are advised, nevertheless, to seek specialist advice from the outset as to the legal form of collaboration, the market and taxation.

Broadly speaking, approval must be sought and while there is an automatic process for this, it is only given if certain guidelines are met, such as a set sum for payment for technology and royalties.

Foreign investors, too, are obliged under the regulations to enter into collaboration with a local company or individual.

Generally, there are four main routes for pursuing business opportunities in India, each route involving varying degrees of commercial risk.

● Foreign companies may initially wish to appoint an Indian agent to market and sell their goods in India and act as their local representative. Under the new business environment this has become an increasingly attractive route, particularly in view of the reduction of import controls.

It is a useful and effective method for developing sales contacts generally and for targeting industries in the public or private sector. In view of the geography of India, foreign companies often appoint a number of agents who have the necessary knowledge or contacts in specific states or towns.

● Secondly, foreign companies may, in the place of (or in addition to) agents, open liaison offices in India to explore the market potential and familiarise themselves with the Indian business environment. Government approval has to be obtained to open a liaison office but it is a straightforward and speedy process.

● Thirdly, if foreign companies wish to undertake activities beyond those permitted for liaison offices, they have to open a branch office in India. The branch office would be connected to the business activities of the foreign parent company, and can execute contracts. There are specific rules for obtaining permission to open liaison and branch offices which should be complied with, but if they are, the Reserve Bank of India will grant permission within a matter of weeks, rather than months, as in the past.

Other options relate to the transfer of technology, and to the setting up of a fully-fledged joint venture.

Technology Transfer: Where a foreign company wishes to transfer technology to an Indian company – generally through licensing – automatic permission will be given, provided the application meets certain guidelines, namely the technology payment, which is for the transfer of technology and is not beyond Rs10m (some £220,000). Royalties are 5 per cent for domestic sales and 8 per cent for export sales. Lump sum payments and royalties may be paid for up to a period of 10 years from the date of the agreement.

Joint Ventures: Foreign companies seeking to have a more permanent presence in India can consider a joint venture to manufacture or they may establish a wholly-owned subsidiary.

Until July 1991, the maximum equity that a foreign company could have in a joint venture in India was 40 per cent but the limit on foreign equity holdings has now been increased to up to 51 per cent in 35 high priority industries. These include electrical equipment, boilers and steam generating equipment, agricultural and industrial machinery, chemicals, food processing, and computer software.

Any arbitration agreement should be carefully drafted

If the foreign investor's project does not come within the 35 high priority industries, or if they require a greater amount of foreign equity, or specific infrastructural projects, such as BOT/BOOs, (build -operate-transfer/build-own-operate) they may make an application to the Foreign Investment Promotion Board, in the Indian Prime Minister's office, which considers each application on its merit.

If there is a transfer of proprietary information, there are intellectual property rights and trade mark protection available to the foreign investor.

As well as making provisions for the protection of intellectual property rights within any collaboration agreement, it is important to stipulate an agreement regarding the governing law applying to the contract, and how any dispute is to be resolved.

This might be through High Court litigation, arbitration, or some form of alternative dispute resolution. Indian law permits agreements to provide for disputes to be resolved in what is normally considered a neutral forum, such as the International Chamber of Commerce.

Any arbitration agreement or clause should be carefully drafted with a view to easing enforcement of arbitration awards. An Indian Supreme Court decision not so long ago delivered a judgment which could have a serious impact on the enforceability of shareholders agreements and international arbitration awards, and investors would be advised to check the applicability of these judgments with regard to their transactions.

In summary, before deciding to go ahead companies should:

● check Indian Government regulations and comply with them. While there has been liberalisation, specific regulations apply to foreign investors;
● be clear as to the method of payment, commission, royalties, lump sums or dividends;
● define the role of your collaborator;
● incorporate a clause for dispute resolution and set out the method of termination;
● take specialist advice on market research, tax and legal matters and do not rely on the advisers of your local partner. Although you may be working to a common end, your individual interests may be different;
● take steps to protect your intellectual property rights and confidential information;
● set a timetable for implementation of the collaboration, the length of negotiations, and time for the execution of agreements and state approvals to be obtained. Consider having a project manager for the negotiations and a timetable for implementation.
● remember that for foreign investors, whilst there are approvals and consents to be obtained at both the central and state government levels, red tape has given way to red carpet for foreign investors in India.

□ *The author is a partner of Masons Solicitors, in the City of London, and a board member of the UK DTI's trade advisory committee for South Asia*

■ THE VIEW FROM GERMANY

Daimlers in Poona

A project to build 20,000 executive class Mercedes cars annually in Poona speaks volumes for the Daimler-Benz group's expectations for Indian prosperity. It also underscores sharpened German interest in investment in India in the wake of economic and regulatory reforms instituted since 1991, writes **CHRISTOPHER PARKES.**

Encouraged by new regulations allowing foreign investors to take majority stakes in joint ventures, and thereby exercise greater control over their investments' destiny, Daimler and its long-standing partner, Tata Engineering and Locomotive (Telco), have set up a 51:49 per cent operation to be known as Mercedes-Benz India.

Production of the cars will start this year, while the factory will also be kitted out to produce 50,000 diesel and petrol engines a year, starting in 1995.

The total investment of DM250m is modest in relation to the scale of the Daimler group, but huge when compared with the $25m invested in the sub-continent by the whole of German industry in 1992, the last year for which figures are available.

On the one hand, the move marks a further stage in the company's globalisation policy, summed up by Mr Helmut Werner, chairman, as a switch from a "made in Germany" to "made by Mercedes". On the other, and on the basis of the popular credo that "what's good for Daimler is good for Germany", it is likely to be seen as a positive signal for other investors to follow.

Even though deep-seated doubts remain in Germany about the wisdom of investing in India, the reform programme has already had a clear impact on intentions. Results of a poll published by the respected Munich-based Ifo institute last November rounded up 32 companies (from a selection of 174 which were already direct investors or involved in joint ventures) which said they were planning new investments in India.

While there were doubtless others which escaped the samplers' net, the most significant finding was that 18 of the 32 said they would not even have considered moving in if the reform programme had not been instituted. The survey also discovered that in a reversal of previous practices, and as in the Mercedes case, a considerable majority of the projects were to be majority-controlled by the German companies.

The possibility of real control was selected by the surveyed companies as a "very important" result of the reform programme so far. Also in this category were the convertibility of the rupee, reduced restrictions on imports of capital goods, semi-finished products and spare parts, eased local content regulations, and a general reduction in bureaucracy.

There was still much to do to attract investment

Even so, more detailed questioning turned up considerable lingering reservations even among this experienced group. Asked to name continuing obstacles, 90 per cent of the direct investors plumped for the inefficiency of the public administration. That 76 per cent of the joint venturers also complained of the red tape suggested that having a local partner does not automatically spell escape from its entanglements.

Other hindrances attracting significant numbers of mentions included the labour laws, currency restrictions, difficulties in both foreign and internal trade, and lack of legal security.

The Ifo study concluded rather dismally that such obstacles meant the stream of German investment would grow only slowly. A pragmatic analysis of the realities of reform and the survey responses suggested considerable scepticism about the prospects for effective change.

Further liberalisation, such as the removal of more administrative levies, charges (and corruption) would help, but what was really needed was wholesale reform of the administration, it said. The Ifo analysis indirectly assessed the likelihood of this in the next paragraph, devoted to criticising the frequent, often sudden and retroactive changes in the law at the Union level, which individual states failed to implement.

"Half-hearted" efforts to liberalise the labour market and trade union power "considerably obstruct the practical application of reform measures", the survey said.

There was still much to do to attract investment, and the Indian government was well aware of the shortcomings of its efforts so far, the report concluded: "But the fact that some of the reforms already in place are political dynamite implies a cautious rather than accelerated continuation along the way to reform."

In the light of such obstacles, and the relative attractions of high-growth, or more accessible investment sites in eastern Asia, Latin America, east Europe and even the US, German direct investment in India may accelerate from its current snail's pace.

● *Indien: Mehr Direktinvestitionen nach den Wirtschaftsreformen?, Ifo Schnelldienst 33/1993. Contact Ifo Institut für Wirtschaftsforschung, Postfach 860460, 81631 München. Individual copies DM11 plus post and packing.*

All segments of the textile industry are working flat out, following two successive years of bumper cotton crops

India's textiles increase their share of the world market, reports **R.C. Murthy**

Big names line up to test the water

Deregulation has transformed textiles into an export-driven industry to attract the foreign investment essential for upgrading products.

All segments of the industry are working flat out, following two successive years of bumper cotton crops.

Meanwhile, textile exports, including garments, rose to $4.32bn in the year ended March last year, 7.5 per cent higher than in the the previous year.

Exports for the year to March of this year are projected to rise strongly by more than 15 per cent to $5bn. When the industry succeeds in technological upgradation and enhances value addition, exports are expected to jump to more than $8.5bn. in three years. Even so, with only 2 per cent of the world market, India is still only a minor player – China's exports last were worth $23bn.

Big names such as Arrow of US, Pierre Cardin, La Coste and Benetton are all testing the Indian waters. Others are already trying to weave strategic alliances with Indian counterparts.

Their first target is to win a slice of the growing local market. They also see India as a springboard for exports to other countries with no quota restrictions.

"The Indian middle class is as big as Germany [in population]," says Mr D.K. Gupta, director of the apparel export promotion council. These world leaders are waiting for the dismantling of the multi-fibre agreement (MFA) in six years to exploit the free market in Europe and the US.

The MFA is to be phased out over the next 10 years to integrate textile exports with Gatt in two stages – to a level of 51 per cent of quotas under MFA by 2001 and full integration by 2005. Cotton, jute and silk have been kept out of the MFA and India will have to negotiate bilateral agreements with US, Canada and the European Union.

La Perla of Italy is to buy a 40 per cent stake in a joint venture with Bombay-based Mafatlal group to make shirts, undergarments and lingerie. Mafatlal, a traditioinal fabrics exporter, has opted for forward integration to produce value-added garments.

Prem Malik, executive director of Mafatlal Industries, says, "We are looking at the upper end of the European and US makets and aim at 40-60 per cent value addition." The joint venture will use Mafatlal fabrics.

Two suit-making companies – Morrotto of Germany and Samsung of Korea – are talking to two Indian textile exporters in New Delhi to turn out 100,000 woollen suits a year, using cheap Indian labour. Critical inputs such as know-how, textile designs and marketing skills will come from overseas partners.

Indian textile groups are preparing to seize export opportunities

As the overseas market became profitable by the 40 per cent rupee devaluation two years ago, Indian textile groups are preparing to seize export opportunities. Most are building facilities to produce yarn for export.

More than 50 spinning mills are coming on stream to take advantage of the duty-free import scheme for such plants. In other segments, strategies differ but the aim is to find niche markets overseas.

Lalbhai group of Ahmedabad, the textile city in western India, has chosen to put Indian denim on the world map. He plans to nearly treble denim exports to 120m metres from the present 48m metres.

"We want to strategically locate our manufacturing units," says Mr Sanjay Lalbhai, managing director. One plant is to be sited in Mexico to gain free access to Canada and the US as fellow members of Nafta.

Another will be in Mauritius, which as a signatory to Lome convention, will gain duty-free entry to European Community. An unnamed Israeli textile group has proposed to its Indian counterpart a joint venture in India, to export yarn to Israel for conversion into fabrics, which will be shipped back to India for making garments for export to Europe. The garments will qualify for duty-free import into Europe if the Israeli content is 40 per cent.

Knitwear is also benefiting. Courtalds of the UK is talking to New Delhi-based Parasarampuria group to relocate its socks plant to India. Delta Socks of Israel is setting up a joint venture to produce socks in India. Delta will pick up 50 per cent of the new venture's output.

Sinterama, an Italian conglomerate, plans to shift its acrylic yarn plant to India, management expertise being provided by Modern group. JCT Ltd. of Thapar and an Italian company plan to make specialty yarn for export back to Italy.

■ ENGINEERING PRODUCTS

It's a tough world

Indian exporters of engineering goods have been shocked by the ending of a federal government scheme which enables them to buy Indian-made steel at lower international prices, writes **KUNAL BOSE.**

The International Price Reimbursement Scheme (IPRS) for iron and steel is to be ended because the government no longer believes it justified. Launched in 1981, the scheme was financed out of a levy on the steel industry's entire bulk production.

The government, however, had never been entirely happy with the IPRS which was naturally deeply unpopular with steel producers. It was also sensitive to criticisms by other countries that it was a central government subsidy to the engineering sector.

This is rejected by the Engineering Export Promotion Council (EEPC), which says that the ending of the scheme came as a total surprise.

The EEPC claims that it recently received a promise from Mr Pranab Mukherjee, commerce minister, that the IPRS would remain in force until March 1995. Exporters had therefore taken many orders which they would now find difficult to fulfil.

Indian engineering products will certainly be less competitive if manufacturers can no longer obtain iron and steel at world prices.

Mr Moosa Raza, steel secretary, rejects the criticism, saying that the exporters of steel-based goods could import duty free steel.

The EEPC says, however, that "since the engineering exporters need various kinds of steel in small quantities, it is not easy for them to organise import. Mind you, there are special steels which are about 30 per cent cheaper in the world market."

To help ease the situation, MSTC, a government trading organisation, has offered to import steel for the engineering sector by amalgamating their requirements.

Indian exports grew by an average 37 per cent a year

The government does not deny that the IPRS has helped to raise the value of Indian engineering exports from Rs8.8bn in 1981 to around Rs90bn in 1993-94. Nearly two-thirds of exports are thought to have benefited.

Mr Bijon Nag, managing director of IFB Industries, a leading exporter of high value components and domestic appliances, believes that the government and the industry together will be able to organise the import of steel, though it would not be easy. "The government will be able to win the industry's confidence provided it clears quickly the huge backlog of Rs3.2bn in IPRS payment," he says.

Because of their volume and high added value, engineering exports, according to Mr Nag, have taken an important position in India's foreign trade.

In spite of the break-up of the Soviet Union, the industry's single largest market, and the recession in other parts of the world, Indian exports grew by an average 37 per cent a year in the last five years.

The composition of exports also changed. Mr JS Bhasin, chairman of EEPC, says that whereas in the 1970s and the early 1980s India primarily exported low value added steel and iron based products, today nearly 60 per cent of its exports consisted of capital goods and consumer durables."

The commerce minister had offered to help make the engineering industry "a significant player in the global market through value added exports". Unlike the localised nature of many other countries' engineering industries, India's engineering industry is based in many parts of the country, giving geographical advantages to its hauliers and shippers.

India is becoming an increasingly important supplier of automotive components to the US, Europe and Japan. It began in the low margin spare parts market. But some manufacturers, including General Motors, Ford and Chrysler, apparently hope to buy higher quality components from India at attractive prices.

Indian exports of auto components grew from $120m in 1990-91 to $190m in 1992-93. EEPC expects the figures to reach $335m by 1996-97.

Engineering exports are likely to be boosted further by the decision of some international engineering groups to manufacture semi-finished and finished articles in India either for their own markets or for delivery to third countries. Bosch will buy washing machines from IFB for export to third countries, while Siemens is to buy small electric motors from a Bangalore engineering company.

In the past decade, the biggest growth in engineering exports has come from the small and medium sectors. According to one estimate, these sectors account for more than 60 per cent of engineering exports.

■ DEFENCE PURCHASES

Pergau factor could hit jets deal

The main talking point in the Indian defence establishment is when, if ever, will even the Indian government give the go-ahead for the purchase of Hawk trainer aircraft from British Aerospace.

The fact that the acquisition has been at the centre of the defence debate for several years is symptomatic of the slow-down during the past five years which has taken place in the modernisation of India's defence services under pressure from stringent financial contraints.

Even the best placed defence analysts and foreign observers are unsure of the progress of protracted negotiations between several ministries on the purchase, although the Cabinet is know to have, on at least one occasion, rejected a proposal. However, it is generally agreed that the fleet of fighter training aircraft is one of several additions urgently needed to strengthen the country's fighting capability.

With the purchase of the rival Franco-German Alpha trainer almost out of question, the 66 Hawks would cost $1.5bn, escalating to an estimated $2.5bn with the inclusion of spare parts and maintenance back-up.

Mr Jasjit Singh, the director of the Institute of Defence Studies and Analyses, has no doubt that the purchase will go ahead but is concerned about the cost of the delay to training. There is a feeling among some observers that the delay has directly contributed to the relatively high loss rate of aircraft on training missions in unsuitable alternative aircraft.

The Pergau Dam controversy is seen in Delhi as adding sensitivity to the deal

The Pergau Dam controversy about the linkage of UK aid to defence contracts in Malaysia is seen in Delhi as adding sensitivity to the Hawk deal. While there is no suggestion of such a link, there is concern that a $2.5bn defence deal with a British company would, at this time, come under under intense scrutiny in London and Delhi.

A Hawk purchase would call for the Indian Government to find funds outside its existing defence budget. The national budget introduced earlier this month allocated $7.36bn to defence spending which is only slightly ahead of the previous year's figure after taking inflation into account.

Defence spending as percentage of GDP has been on a sharp decline since 1985-86 when it reached 4 per cent. Today it is closer to 2.4 per cent, and barring a rapid change in the strategic balance or a rise in domestic unrest, is likely to remain at this level for the next few years at least as the government wrestles to master public spending.

All government departments have come under tighter spending controls. However, the dislocation of defence relations with the former Soviet Union in the wake of its break-up coupled with an easing of tension along the Pakistani and Chinese borders have made defence a target for particular constraint.

The newly independent states in the former Soviet Union have been demanding hard currency for arms deals, replacing the previous loan and barter arrangements and adding to the budgetary problems. Several defence observers in Delhi noted that in recent months there appeared to have been a strengthening of contacts between India andstates of the former Soviet Union following exchange visits by a number of highly placed officials.

Concern is being expressed that the cuts have reached a point where standards are deteriorating and that this decline will accelerate as equipment and hardware ages without the prospect of replacement.

Major General D. Banerjee, the deputy director of the Institute for Defence Studies and Analyses, shares this concern and believes that it is due to insufficient planning for future defence needs.

Several diplomatic missions cite the growing acceptance of outdated yet cheap foreign hardware as evidence of a qualitative decline. They also believe that the desire to step up indigenous production, while understandable as a means of developing local industry and self-reliance, will lead in the short term to a lowering of standards.

Several local defence companies have been forced to look at alternative sources for sales as government spending falls. Mr R.N. Sharma, chairman of the state-owned Hindustan Aeronautics which has a long relationship with BAe, said late last year that after the "changes in the defence aviation scenario world-wide, HAL has planned to launch a major restructuring of its operations to place new emphasis on the civilian aviation market..." Others have moved computer software operations, using their experience in defence and skilled staff to diversify into civilian markets.

Serious delays with several government-funded defence programmes have cast a shadow over the strategy of indigenous development. Last year it was discovered that locally produced Arjun battle tanks, which began testing last year, were unsuitable for hot terrain while there have been long delays with a helicopter project because of design faults.

India's Prithvi missile went on public display for the first time during the Republic Day parade in January Picture: AP

The navy, with the smallest budget, has also been hit. The submarine development programme has run into problems and it is looking at purchasing four replacement, outdated UK Upholder class vessels at what is described as "fire sale prices".

In addition to the needs in these fields, the Indian defence force's three most important requirements are 155 millimetre self-propelled guns, either an upgrade or a replacement for the ageing MiG-21 aircraft – which has formed a key element of the airforce's strike power – and the creation of naval service and shipyards.

A replacement plan for the MiG-21 has been virtually ruled out as too expensive with the most likely option being a Russian-led upgrading. The involvement of Israel in this plan is believed to be less likely, due in part to political factors.

Although all these replacement or renewal plans possess their own element of urgency, negotiations on each of them are well behind those for the Hawk purchase, meaning decisions could be years away.

In the words of a seasoned observer of the Indian defence system: "I don't think people coming to India to do business with the military are going to do much good. However, if they were to want to set up a power plant or communication system the answer could well be 'yes, yes, yes'."

Ray Bashford

■ **Joint venture profile:** LUCAS AND TVS

Unravelling the spaghetti

Management at Lucas-TVS used to call the inefficient production floor at the automotive parts plant on the outskirts of Madras "spaghetti junction".

This reference to the tangle of motorway overpasses in Birmingham, the home of Lucas Industries, is one of the many cultural legacies left by the expatriate staff of the automotive, aerospace and industrial systems group, during the 30 year life of the Lucas-TVS joint venture.

The plant today has a tight production system, is largely automated and is poised to face the challenges thrown open by the Indian Government's industrial liberalisation plans.

The venture with TVS, one of India's 20 biggest industrial conglomerates, stands out as an example of industrial co-operation which has endured the political uncertainty that has sent many foreign companies packing from India.

Mr K. Seshadri, the executive director, speaks in glowing terms of the assistance and direction that Lucas has lent the company as it has grown through the production of principally starter motors, alternators and dynamos.

"It's good to be exposed to fresh ideas," he says.

"Englishmen have a different way of looking at things and the company has benefited from this objectivity."

He makes special mention of Mr Ron Flint, one of nine joint managing directors from Lucas during the history of the company. He, in the decade before his retirement last year, helped oversee a growth in sales from about $10m to £42m.

This expansion rests heavily on the arrival in the Indian market of the Maruti Suzuki, the country's first small car for the urban middle class. Lucas-TVS used its established position as a producer of dynamos for the Ambassador range of cars to capture the lion's share of the market for the new car's starter motor and alternator needs.

Lucas-TVS saw off a challenge from a joint venture between SRF, a diversified Indian industrial group, and Nippon Denso, the Japanese components company, for this new market. SRF, as it is known, was established in the mid-1980s but the combination of high tariffs and an appreciating yen against the rupee made its trading conditions difficult.

Lucas-TVS developed out of a desire by both partners to extend and diversify their existing operations. Lucas had, for 30 years prior to the establishment of the joint venture distributed its home grown products through a broad geographic dealer network in India while TVS had developed from a small family concern into a national trucking and bus business.

Their union put the venture at the forefront the country's fledgling automotive industry which was being buffeted by government interference. The present shareholding structure is evidence of the wish by successive governments to have a firm grip on the industry. The government still indirectly holds 14 per cent as a result of a decision by New Delhi in the 1960s to force Lucas to cut its stake from 60 per cent to 51 per cent and TVS to lower its holding from 40 per cent to 34 per cent.

Day to day management has been progressively handed to a local team. Following the retirement of Mr Flint there are no Lucas staff at the site.

Car assembly at the Maruti Udog factory outside Delhi

At its peak there were more that 20 British expatriate employees. There is no plan to appoint a Lucas representative as a joint managing director.

"We have a very strong Indian management team," says a Lucas spokesman in London. "We are confident and happy to let the present management run the business."

Mr T K Balaji, who is the sole managing director, speaks about the need to push firmly ahead with automation to counter possible challenges to Lucas-TVS's controlling position in its prime market.

In a reference to the possibility of foreign imports which may come from lower import tariffs, he says it is no longer sufficient for the company to rely on its cheap labour costs to provide a competitive advantage.

The impact of greater automation at the plant has already been felt. After a decade of steady growth to 3,100 employees in 1988, the number has fallen to 3,000.

Highlighting the rise in productivity already achieved, sales in 1988 were only £18.7m, less than half last year's figure.

"We must automate more and we are talking to many people about this," Mr Balaji says. Discussions have been initiated with Japanese companies about possible collaboration and Nippon Denso is one of the groups understood to have been involved.

The managing director is guarded about his development plans but he stresses the need to expand into diesel fuel injection systems.

Mico, in which Robert Bosch of Germany is the biggest shareholder, is the main participant in the Indian market for this component. Lucas-TVS has been looking enviously at the returns the German-led venture has been achieving and believes that a drive into this expanding area is important for longer-term prosperity.

Lucas will feature heavily in any decision but will probably approach it with a good deal more optimism about the future than at any time in the past 30 years.

Ray Bashford

INVESTMENT IN INDIA 8

The telephone system is being slowly restructured and widened, says **Ray Bashford**

A pygmy with giant potential

Residents of India's biggest cities can expect to wait up to five years for a telephone connection to their house. Getting an outside line from an international hotel can sometimes seem as slow.

As increasing numbers of people clamour for phones and tire of cross-lines and break downs the Indian Government is getting down to the business of dragging the service into a new age.

There is ample evidence around Delhi that foreign and domestic companies believe that the cracks in the government's protective wall are about to widen to expose one of the potentially two biggest markets in the world for telecommunications.

International seminars on the industry, visiting delegations to local companies and the creation of new Asian headquarters in Delhi for multinational groups are signals of change.

Mr N. Vittal, the chairman of the Telecom Commission, is the man in charge of throwing open the industry to competition by breaking the grip of the protective Department of Telecommunications (DoT).

His energetic style and commitment to liberalisation has earned Mr Vittal, during his five months as chairman, the nickname, the "DoT breaker".

However wide his support is in industry and broad sections of government, the first important test of his authority will come early next month when the government is expected to hand down its decision on his policy review.

Although already delayed by two months, Mr Vittal is confident about the chances for his plan. He will not discuss its details but speaks as a man who believes he has the tide of opinion running with him. "It [his plan] is being considered by the highest level of government and we are waiting for approval," he says.

Industry feels that the government will broadly embrace Mr Vittal's proposals but they will be tempered by opposition from unions and the DoT which want a more gradual and highly regulated entry of private capital.

For example, there is a widespread feeling that the companies will, initially at least, be stopped from access to the creation of telephone networks in major population centres. Instead they will be offered opportunities in semi-urban and industrial development areas where infrastructure spending will be higher and the demand less.

Mr Sunil Mittal, the managing director of Bharti Telecom which is bidding for a relatively small network licence in the Punjab with New Zealand Telecom, says that the big cities are "the holy cows of the Department of Telecommunications".

"Mr Vittal's plans may not go straight through. It may take some time. But there is no doubt that things are happening," he says.

The potential demand and investment requirement are enormous. India lags well behind developing Asian countries in terms of lines per capita. For example, Malaysia has 10 lines per 100 inhabitants and Thailand four while India has 0.68, placing it slightly behind China, India's main rival for foreign investment, with 0.73.

TELEPHONE DISTRIBUTION IN INDIA AND OTHER ASIAN STATES

Country	Population (m)	Total main phone lines	Lines per 100 inhabitants
INDIA	849.64	5,810	0.68
Bangladesh	118.75	249.8	0.21
Indonesia	187.77	1,276.8	0.68
Pakistan	115.52	1,116.1	0.97
Philippines	62.87	647.9	1.03
Thailand	56.92	1,553.2	2.73
Vietnam	68.18	100	0.15
China	1,150.09	8,451	0.73
Rep of Korea	43.27	14,572.6	33.68
Singapore	2.76	1,101.1	39.85

Sources: ITU, UN, South Pacific Commission

Telephone maintenance in the centre of Delhi

India's 200m strong middle class are the target. Servicing the immediate demand of the market would call for a rise in the number of lines from the existing 7m to 20m, according to the government.

There are 3m people waiting for telephones, Mr Vittal says. "It is the DoT's experience that the moment the waiting list is removed, a larger waiting list springs up."

A rise to 20m telephones would call for the investment of $13bn. The more optimistic in the industry believe that the installation of 23m lines by the turn of the century is achievable.

Applications for 23 networks have been received, although some of these are seen as not much more than expressions of interest. In addition to network applications, the liberalisation has opened up the market for parts and equipment in anticipation of expanding installations.

Leading domestic groups including RP Goenka, YK Modi, Tata Electronics and Bharti Telecom, are positioning themselves to expand rapidly. While at the same time international groups ranging from Northern Telecom, US West, Motorola, Ericsson, Alcatel, AT&T, France Telecom, British Telecom, Siemens to New Zealand Telecom are also active.

In many cases local companies are linking in joint ventures to establish networks with international companies or are forming technological exchange tie ups or direct purchase agreements.

US West has made one of the more ambitious proposals to set up a fixed wireless and fibre optic network in non-urban areas of Tamil Nadu, the south eastern state. If approved by the government the bid, made on a non-exclusive basis leaving the door open to other potential operators, would call for a direct investment of $100m, subject to US West board approval.

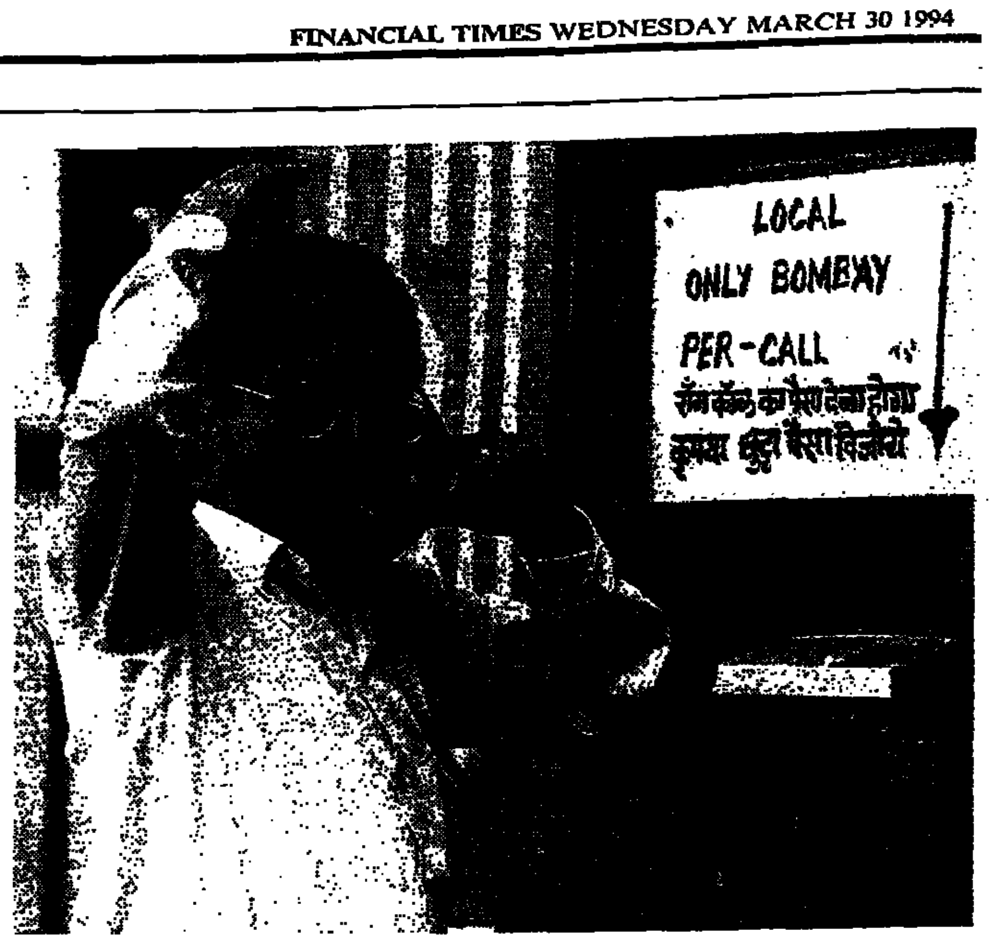
The role that DoT could play in this new, liberalised climate is unclear and subject to intense speculation. A break-up of the department along regional lines is the most likely first step, perhaps with the disposal of at least part of each segment to private investors.

There are indications that the department is boosting its own efficiency. Long seen as one of the most bloated arms of government, productivity has risen during the past three years by holding staff levels down to 480,000 while the number of telephone lines has risen from 4m to 7m.

An important first stage of the privatisation of the Indian telecommunications system came with the first sale of a stake in Videsh Sanchar Nigam, the country's international service provider. The government sold a 12 per cent in early 1992 and this could be reduced to 52 per cent by the end of the year. The company is in the process of making a $1bn international equity issue as part of this plan, the biggest ever made by an India company. To oversee competition in this less regulated atmosphere the government is establishing a Telecommunications Regulatory Authority which will include members from outside the DoT.

Mr Vittel points to the promotion of value-added services, in particular cellular telephones and paging services as others signs of deregulation. However, this process as commenced inauspiciously.

The granting of the first eight licences for cellular networks, each of which was a joint bid with a foreign partner, in the four biggest cities has landed in the Indian High Court amid allegations from those among the 22 unsuccessful bidders of corruption, mismanagement and nepotism. The long-overdue high court ruling and the government's decision on Mr Vittal's recommendations are keenly awaited.



On the line in Bombay

Shiraz Sidhva reports from Ludhiana, Punjab's industrial hub

Forward from rebellion

As the prosperous northern state of Punjab limps back to normalcy after 10 years of armed insurgency, industrialists are doubly relieved.

They can go about their work without fear of the gun, and run three shifts in their factories, which had ceased full production after the trouble started a decade ago. And they can concentrate on greatly expanding their businesses as they experience the benefits of the dismantling of the country's licence raj.

Within two weeks of the Union budget statement by Mr Manmohan Singh, finance minister and the main architect of India's reforms programme, industry was upbeat in Ludhiana, Punjab's industrial hub.

The effects of decontrol are apparent at the Focal Point industrial estate, where more than 10,000 factories within a 12km radius are engaged in the manufacture of steel, machine tools, heavy engineering goods, hosiery, textiles, and sewing machine parts.

Mr Raj Kumar Sharma, exports manager in the Punjab Small Industries and Export Corporation, a state government body to encourage industrial growth, says that the return of normalcy has prompted many more units to apply to set up businesses in Ludhiana. The effects of the government's incentives to exporters have percolated to businesses here, he says.

Mr Jagdish Rai Singal, managing director at Eastman Industries, runs one of the most successful businesses at the industrial estate. He is happy that he no longer needs to visit New Delhi, the capital, to spend endless hours knocking at the doors of bureaucrats, while his business is neglected in Ludhiana.

Mr Singal's company is among the country's seven leading exporters of engineering goods, shipping $25m worth of engineering and light engineering goods a year, with a range of products including bicycles and bicycle and moped components, handtools, forgings and fasteners, entirely for exports.

Like other units in the engineering industry, Eastman experienced the first benefits of economic reform with the de-control of steel in 1991. "Steel was regularly available to back-up units, and our supporting manufacturers as well, which is a major benefit of reform," says Mr Singal.

"The climate is just right for the expansion of industry," says Mr Jagat Singh, managing director of G.S. Auto International, manufacturer of automotive chassis suspension components and radiators. Mr Singh's collaborators include Llanelli Radiators of the UK and Nissan of Japan.

> After 10 years of armed insurgency, factories operate around the clock and look forward to de-regulation

"Finance is easy to obtain, and the import of raw materials has never been simpler," he says. "Fuels like high speed diesel and liquefied petroleum gas are easily available, and there is no waste of time obtaining the few permissions that are still required from the government."

Mr Brijmohan Lall, chairman of Hero Cycles Limited, and past president of the Confederation of Indian Industry, says: "We used to waste a great deal of time and energy trying to get things done in New Delhi, deputing very senior people to do it."

"The licence and inspector raj is practically finished and the reforms have brought a lot of economy in our day-to-day functioning", says the head of the world's largest bicycle factory, on Ludhiana's main road, minutes away from the Focal Point estate. "Earlier, we used to have to run around for days before the most junior official of the Steel Authority gave us some steel. Now we have senior personnel calling on us, wanting to make the raw material available to us on a regular basis."

Erratic supply and broken deadlines as a result of a delay in clearances are also a thing of the past. Hero is in the process of setting up a steel mill, and all it has to do is acquire the land, import equipment, and commence manufacturing.

"Our equipment suppliers have started trusting us when we say we will remit money to him, and once we settle on a price he knows I will import it and not pull out at the last minute because the government did not grant permission."

A major advantage of reform is that permissions required from the Reserve Bank of India have almost completely been abolished, with the simplification of Foreign Exchange Regulation Act (FERA) rules. Exporters and other foreign exchange earners have been permitted to retain 25 per cent of their foreign exchange earnings in foreign currency, and 100 per cent export-oriented units and units in export-processing zones can keep 50 per cent.

"Our agents abroad were never sure that their commissions got to them in time, or at all, and the new rules have made both agents and customers quite happy," says Mr Singal. Pricing quotations have become simpler, because the exporters do not have to take "incentive money" or bribes to officials into account when quoting their prices.

"Our costing used to be different from week to week, because of erratic supply, but that has stabilised now," says Mr Lall. "When in the past we had to chase even the smallest bank loan, the availability of finance has increased dramatically, and there is not a day when some financial institution does not approach us with offers of funds."

"Exporters have access to finance for exports at a 6.5 per cent interest rate which is a very positive feature for keeping you competitive," adds Mr Singal.

The complexities of export notifications have been disbanded to a great extent, with value-based advance licensing available for most items except a few on the negative list for reasons of security or protection of the environment. "The few licences that are needed take a shorter time to get than ever before," says Mr Singal.

Inter-nodal transportation is to be introduced soon, which will allow a clearing agent registered with the Ministry of Commerce to issue bills for loading the ship, thus saving time and paperwork with the ministry. The Export Promotion Capital Goods Scheme for importing equipment at a concessional rate of duty has also been very effective.

Other industrialists in the Focal Point estate agree that there is an attitudinal change in the bureaucracy. "But some snags persist at the lower levels, because old habits die hard," claims Mr Harbhajan Singh, who run a small handtools business in the area. "But the overall attitudinal change for the better is reflected in the fact that more foreigners are keen to do business with India, with a greater awareness than ever before of its changing image."

"The slow pace of our reforms gets accentuated when they are compared to reforms in China, Thailand, Indonesia and Malaysia," says Mr Singal. "We may be on the same route but are nowhere near them in terms of speed or efficiency."

Jewellery exports sparkle in Bombay free trade zone

The road to Santacruz

Bombay's Santacruz export processing zone (Sepz) is the spearhead of India's growing exports of processed diamonds and jewellery, writes R.C. MURTHY.

At present, there are 33 manufacturing units there which last year earned a total Rs.5bn. there are 33 units which process diamonds and make jewellery for exports.

According to Hitesh Mehta, manager of Intergold, the biggest of these units, a lot more companies would like to diversify into manufacturing for export to take advantage of one of India's chief assets, its cheap labour.

Intergold, which began manufacturing in the zone a couple of months ago, is a subsidiary of B. Arunkumar, one of the top 50 jewellery exporters in India, with 1,200 employees.

Mehta manager, says says that access to cheap labour enables the export manufacturers to raise their added value to 35 per cent.

Two dozen new units have been recently been authorised. It is estimated, however, that about 900 of India's 5,500 jewellery exporters would like to join them there.

Businesses in the zone are permitted to import gold and precious stones duty-free and and to export their finished goods without obstruction.

The zone has become a magnet for exporters. Though the administration is deregulating the economy, the integration with the global economy has been painfully slow and the process is may take another five years.

> The plants can import gold and gems duty-free and export finished goods without hassle

The trade reforms have given a fillip to diamond exports. The rupee was devalued by nearly 30 per cent three years ago. Last March it was made convertible on the trade account and this month was also allowed to float on the current account.

India escaped relatively lightly from the world diamond industry's deep recession of the last three years.

Exports of finished diamonds from India shot up last year to $3.28bn from nearly $3bn a year before.

The Central Selling Organisation, the marketing arm of De Beers, reported a turnround in rough diamond sales last year, after a steady three year fall.

The CSO's sales jumped by 29 per cent to $4.36bn in 1993. India's exports of finished diamonds and jewellery jumped 26.7 per cent on a year-by-year basis to $3.56bn in the 11 months to February last, says Mr Harshad Mehta, chairman of Intergold.

Gold jewellery is the best performer, with exports rising by nearly 30 per cent against a 6 per cent drop a year ago.

India's share in the $30bn world gold jewellery market is still only 0.26 per cent, however. Exporters and the administration are eager to make it easier to import primary gold and to build the infrastructure for jewellery manufacture.

"We will be a force to reckon with in the next five years", says Mr Mehta. His confidence stems from India's breakthrough in the Far Eastern market last year. Korea, Taiwan and Thailand overtook France and Germany. India's most important markets after the US, Japan and Italy. The Asian "tigers", including Hong Kong, Taiwan, South Korea and Singapore, and other Pacific Rim countries have vibrant economies, which augurs well for Indian exports, says Mr Mehta.

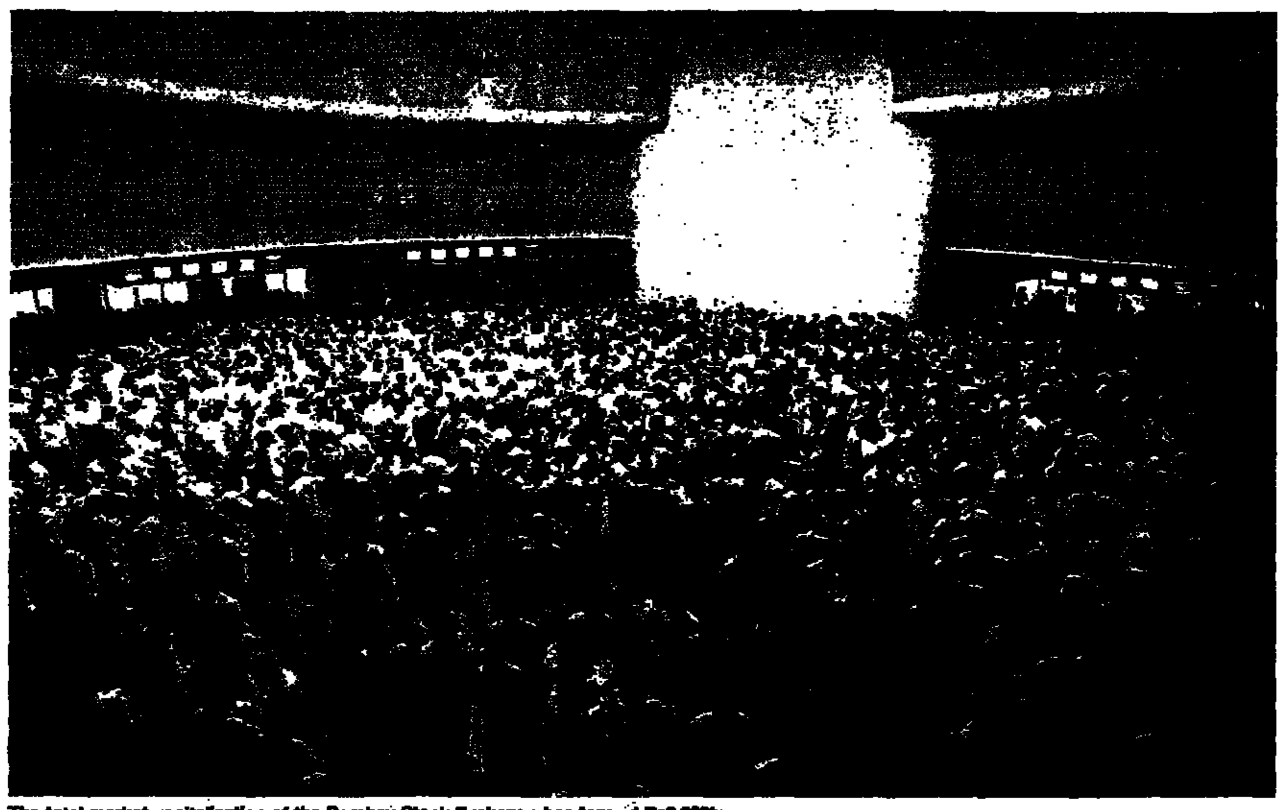
A jewellery show in Bombay this month was part of a plan to increase overseas customers' awareness of India's potential. A similar show a year ago was ruined by a series of terrorist bombs in the city. Nows the industry has decided to hold the Bombay fair every year. This year it took place immediately after similar exhibitions in Hong Kong and Bangkok.

The Indian diamond houses also talk of building a permanent exhibition complex in the diamond bourse.

Bombay's finance markets are thriving, writes **Stefan Wagstyl**

Biggest surge since 1948

The real trigger for the markets has been a flood of foreign buying



The total market capitalisation of the Bombay Stock Exchange has topped Rs3,000bn

Bombay's financial markets are booming, fuelled by the biggest surge of foreign portfolio investment since India's independence.

The city is filled with international fund managers, stockbrokers and merchant bankers touting for business. Hotels are full. Office space in Nariman Point, the heart of Bombay's business district, is at a premium. Recruitment agencies are on the prowl. "It's like Seoul was in 1986," says one Hong Kong-based fund manager.

Even though equity prices fell sharply immediately after last month's Budget, the stock market is more buoyant than at any time since the 1992 securities scandal. The Bombay Stock Exchange's 30-share index, which hit a post-scandal low of 2150 last summer, almost doubled to 4,286 just before the Budget.

The rise has come amid signs of a modest recovery in Indian industry after more than two years of stagnation. But the real trigger for the markets has been a flood of foreign buying, far above the expectations of officials at the finance ministry, who opened the market to non-Indian investors only at the end of 1992.

As late as last September, foreigners had bought a mere $150m of stock, so time-consuming were the procedures for securing permission to enter the market. But by the year-end, the figure was over $1bn and now stands above $1.3bn.

About 150 institutions have now registered with the Indian authorities – around 90 are active buyers. Large overseas funds dedicated to India which have yet to buy stock – notably $500m funds managed by Morgan Stanley and Robert Oppenheimer, the US investment banks. Mr GS Desai, the Bombay Stock Exchange president, says: "With so much buying by foreign institutional investors the mood is very positive."

In addition, foreign fund managers have bought about $1.2bn in Indian companies' Euroissues, including substantial offerings from Reliance Industries, the petrochemicals and textiles group, the State Bank of India, the country's largest bank. In the pipeline is a $1bn issue from Videsh Sancahr Nigam, India's international telecommunications carrier. While the post-Budget correction could temporarily delay some issues, at the time of writing it does not seem likely to cause any longer-term disruption.

Indian companies have taken advantage of this demand to issue record amounts of new equity to help repay old loans and raise funds for new projects. The total market capitalisation of the Bombay Stock Exchange has topped Rs3,000bn.

Nevertheless, the first flush of enthusiasm for Indian stocks could soon fade. The driving force behind last year's surge in foreign buying was principally a hunt for new developing countries in which to invest following big increases in east Asian markets. This was coupled to moderate enthusiasm about India's economic reforms.

But as fund managers crowded into Bombay, driving up prices, so some important concerns have emerged. The first is that leading Indian equities are not cheap by world standards, with the 30-share index trading on a composite multiple of 50 times earnings – up from 30 a year ago. Smaller stocks trade on multiples as low as 10: these are the real investment jewels of modern India but identifying the suitable ones takes time and the markets in them are often illiquid.

The next problem is the archaic trading, settlement and stock transfer systems, which can cause delays of up to six months between payment and the formal registration of share-ownership. If entering such a market can be difficult, then getting out might be even harder – especially if, at some future date, foreign fund managers all go for the exit at the same time.

The biggest bottleneck now is in custodial services – the handling of the paperwork connected to share trading which is usually done by a custodian bank on behalf of an investor. The three international banks offering services in Bombay – Hongkong and Shanghai Banking Corporation, Standard Chartered Bank and Citibank – were overwhelmed by the investment surge. Hongkong bank and Citibank, the two bigger operators, placed curbs on new accounts and recruited extra staff to clear the backlog. Hongkong bank said early this month that the backlog had virtually been cleared though the trading curbs were still in place to make sure the paperwork did not swell again.

The Securities and Investment Board of India, the markets watchdog, authorised regulatory changes including the use of "jumbo" transfer deeds and share certificates to ease the transfer of large lots. Indian banks are also offering to act as custodians for foreign investors.

However, Mr SS Nadkarni, the Sebi chairman, says the real solution will come with the introduction of computerised trading, combined with computerised settlement and share registration. These changes are to be introduced over the next two years.

Also, the Bombay market will steadily become more accessible to foreign investors as more foreign-owned financial services companies establish themselves. Fourteen foreign-owned stockbrokers have been permitted to open offices – though they are limited to dealing with foreign investors and cannot yet join the stock exchange so must trade through Indian brokers. The exchange has recently opened its doors to corporate membership, including joint ventures between foreign companies and local partners, though none has yet been admitted.

Moreover, the Sebi has done much to improve standards of honesty in the market. Dealing with the 1992 securities scandal, in which money was illegally siphoned out of banks into equities, has given Sebi an ideal opportunity to start cleaning up bad practices including over-charging clients, mixing client and own account trading, insider dealing, tax fraud and poor book-keeping. "There's a much more salubrious atmosphere at the BSE now," says Mr Nadkarni.

Sebi has this year also recorded a considerable success in reforming the exchange's informal forward market, called *badla*, which has been widely used for untransparent trading. Eventually the government plans to replace *badla* with a formal futures and options market.

Desai: 'the mood is very positive'

The remarkable progress in creating modern capital markets contrasts sharply with much slower reforms elsewhere, notably in the state-owned banks which dominate the banking system.

The government has partially liberalised interest rates and rules controlling loan markets, though important restrictions remain notably an obligation on banks to lend a chunk of their funds directly to the government and lend a further slice to politically-favoured groups such as farmers and small businessmen.

The state-owned banks will face tougher competition following the licensing of nine new private sector banks, the first in 30 years which will join the existing 55 (including 24 foreign-owned).

The government is also planning to sell off up to 49 per cent of state-owned banks. The State Bank of India, the largest, has gone to the market raising Rs32bn in shares and bonds and reduced the state-controlled stake from 98 per cent to 66 per cent. Other stronger banks will follow Meanwhile, banks have been forced by new accountancy rules to reveal the full extent of their bad debts for the first time – Rs100bn-Rs110bn at the end of March 1993 for the 28 national banks. The government, which earlier injected Rs40bn into the banks, has put in a further Rs57bn over the last year with another Rs57bn promised in 1994-95.

However, none of this will change the state-controlled nature of the banking system. As Mr C Rangarajan, governor of the Reserve Bank of India, the central bank, says: "In five or 10 years' time there will still be a state-dominated banking system." If the system is state-owned it is difficult to see how banks will be forced to become genuinely competitive. Cutting loss-making branches, shedding staff, introducing labour-saving computers. None of this will come quickly.

As Mr N Vaghul, chairman of the Industrial Credit and Investment Corporation of India, a diversified development bank, says: "The capital and banking markets have changed. The next logical step is institutional change. But the government is shying away from it."

The other major financial market dominated by the state is insurance, where two giants – the Life Insurance Company and the General Insurance Company –monopolise services. The finance ministry is considering a report recommending liberalisation, including the licensing of privately-owned insurance companies. But competition will not transform the market, unless the the state-owned groups are also turned over to private hands.

Barring accidents, the prospect for Indian financial markets is of further rapid growth in size, including increasing participation for foreign investors and financial services. In new markets, private initiatives will dominate.

But in the traditional bedrock of the financial system, particularly in banking, government influence and/or interference is likely to remain pervasive. The result could be an uneasy balance between old and new: computers and manual typewriters, faxes and messenger boys, million dollar deals and one rupee revenue stamps.

It's a tale of Karnataka in India, where coffee, gold, sandalwood, silk and iron ore are produced in abundance. Amidst a backdrop of a rich cultural heritage and tradition which is entwined inextricably with a modern industrialized society.

Bangalore, the capital city

A variety of beautiful flowers, clean streets and a verdant landscape, sprinkled with lakes and ponds, greet you in Bangalore. Here, an unhurried pace of life co-exists with the accelerated tempo of high-tech industrialization. Bangalore offers a cosmopolitan way of life comparable to the best in the world - with Golf courses and 5-star hotels serving international cuisine.

Dynamic growth in Industry & Commerce

Industry & Commerce are flourishing with several large, medium and small industries both in the public and the private sector. All concentrated in more than 80 industrial estates/areas comprising 150,000 units in sectors ranging from electronics, electrical engineering, aluminium, steel, machine tools, precision tools & watch-making to aeronautical and computer engineering - software.

Opportunities abound

Change and pace have become key words in Karnataka. Recent policy changes in the national scene have given further impetus to its economic growth.

Infrastructure available in Karnataka is among the best. The trained manpower available here is unrivaled. The administration process is quick with its Single Window Agency. And the package of incentives is one of the finest.

Three steel plants of an annual capacity of one million tonnes are proposed. A nine MTPA oil refinery is scheduled to be installed.

The Bangalore Information Technology Park, being established by the State along with the Tatas and a Singapore consortium is a tribute to the State's knowledge intensive industry. The State's IT industry is today catering to European and U.S. demands. Little wonder then, that IBM, Apple, Texas Instruments, Hewlett Packard, Bosch, Siemens, Fritz Werner, AEG, etc., have already set up base here.

Human resources

Known for its skilled and highly professional manpower, obtained from various R & D Institutions, over 40 professional colleges and a host of academic institutes like the Indian Institute of Sciences - Karnataka rightfully boasts of being among the best in terms of human resources. Another plus in Karnataka's favour is its peaceful industrial labour force.

Ample Power potential

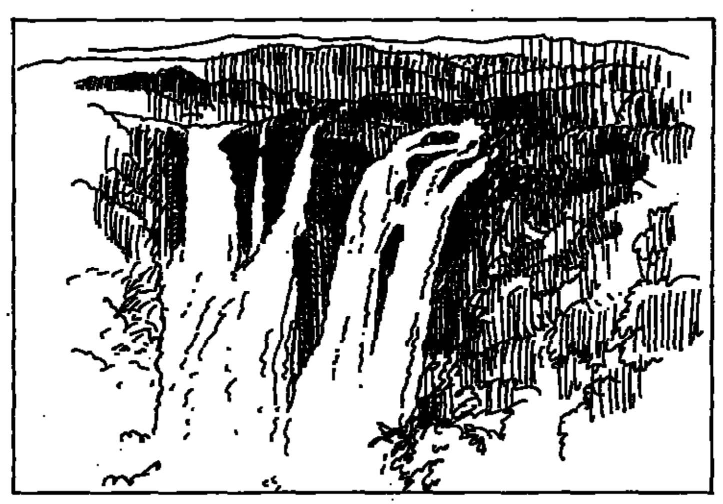
The State has a mix of hydel and thermal generation of power. The present installed capacity is 3600 MW - likely to be doubled by the year 2000 AD. Private participation in power generation, transmission and distribution is welcome. The State government is committed to providing all incentives to private investment in the power sector.

Well linked

Bangalore is well connected by air to all major cities and will shortly be on the international air circuit. An international convention centre and a new international airport are among projects currently on the cards.

A veritable treasure trove of tourism

Nestled amidst magnificent monuments, temples and palaces, a picturesque coastline along the Arabian sea, the majestic rocks of the Deccan, thick lush green tropical forests and an unimaginable variety of animals and birds, Karnataka has all the ingredients of a great holiday. Add to this the exclusive perfume of sandalwood and agarbathis, the aroma of fresh blooming coffee flowers, the heady fragrance of the Mysore Jasmine and a thousand varieties of roses and you have an unforgettable experience on your hands.



To exploit the abundant beauty that nature has bestowed on Karnataka, the State wishes to develop diverse tourism activities like nature & health tourism, sports, adventure and youth tourism, both through government and private efforts.

As India moves towards more and more liberalisation to facilitate increasing private and foreign investments, Karnataka prepares to receive them with open arms. Especially in industry, Karnataka acts as a corridor to investors allowing them access to any part of the country with ease.

If you are considering an investment in India, Karnataka would be your safest and best bet.

So make that journey to the East. To Karnataka. And give yourself up to a rich experience in every sense of the word, at a cool average temperature of 19°C.

But come soon, or your coffee will get cold.

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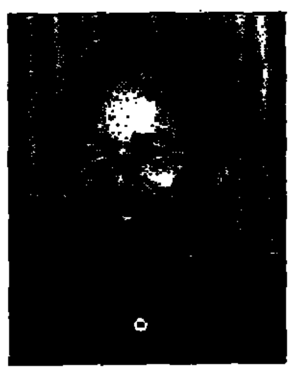
Shri. P.V. Narasimha Rao
Hon'ble Prime Minister of India



Shri.Veerappa Moily
Hon'ble Chief Minister of Karnataka

karnataka information

Ray Bashford probes General Electric's $500m commitment

Senior status among US companies

General Electric has emerged as the flagship of US investment in India. After concluding four years ago that the country was transforming into a new industrial frontier Mr Jack Welsh, the chief executive, launched a high profile investment strategy which has given the conglomerate this senior status among the US companies crowding into Delhi.

GE's much publicised plans to invest up to $500m in India in the next three years also has made it an important participant in several vital areas of infrastructural development through the private sector.

The group's diverse spread of operations is being replicated in India. The power engine, finance, home appliance and lighting, locomotive and medical divisions are at varying stages of growth. And to complete the group's involvement, the television, electrical distribution and control and motor engine businesses are seeking routes for entry.

Responsibility for GE's strategy in India has been handed over to Mr Scott Bayman, 47,- who hails from Louisville, Kentucky. He took put the position eight months ago but watched the Indian plans mature during three and a half years as a senior executive in the group's appliance division.

"This is an exciting place to be for GE. It's being part of changing GE's centre of gravity towards this part of the world and that is rewarding," Mr Bayman says.

GE is becoming known for "what it has done not what it is going to do," he adds. "This means that the government is able to point to GE when other foreign companies are interested in coming in."

US companies, particularly customers of GE such has Ford and Allied Signals, have sounded out Mr Bayman on the opportunities in India. Many others groups are watching GE's progress before making commitments.

Mr Welsh's study found that India, China and Mexico were the key growth areas for GE into the next century. After follow-up investigations by the corporation's strategists the decision to tilt investment funds towards these areas was put into effect about three years ago.

"We came to the conclusion that there were large opportunities in India," Mr Bayman says. "Look at the growth opportunities in India and compare them with the mature markets of North America and Europe and you can get awful excited."

As the result of discussions on the ground with business and government leaders, the company dismissed as outdated the view of India as over-populated, over-governed and irreversibly Third World. Instead it concluded that India was potentially one of the two biggest markets in the world, had a Western-based financial system and, most importantly, wanted change.

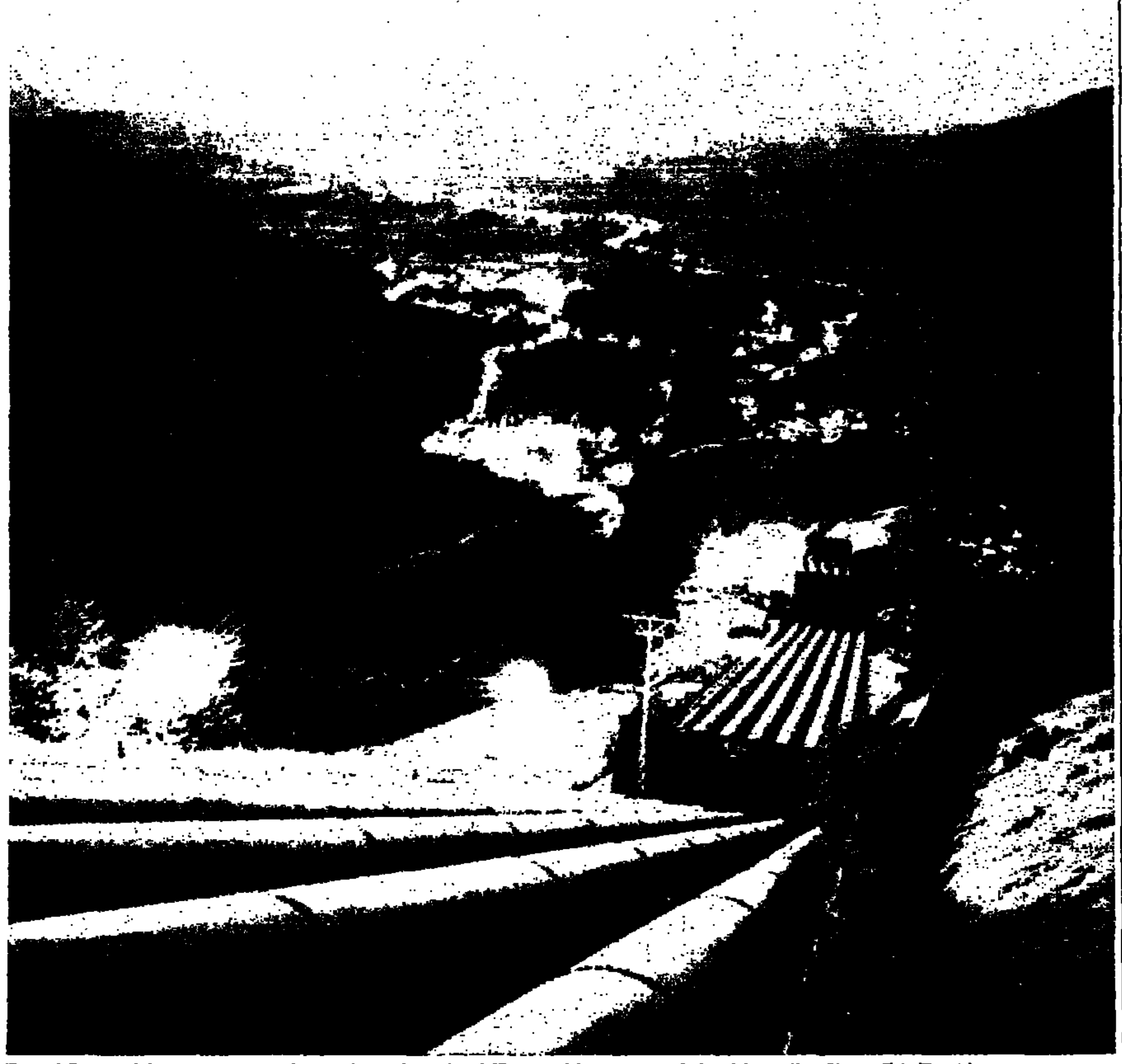
To date, $150m has been invested. Final approval for two power projects where GE is co-developer, equity partner and power equipment supplier, could soon push investment to more than $250m.

With power engines one of GE's main businesses the group's success rests heavily on the national government's ability to force through its energy policy which is pivotal to the development of the industrial infrastructure.

Estimated demand for power in 1996-97

Region	Requirement (m kwh)	Peak load (MW)
Northern	129,587	24,234
Western	121,159	9,587
Southern	103,191	18,150
Eastern	56,011	10,250
North-eastern	6,169	1,388
Andaman, Nicobar Is.	140	39
Lakshadweep	17	4
ALL INDIA	416,274	76,356

Source: Eighth Five Year plan 1992-97



'Potentially one of the two biggest markets in the world' – electricification giving power for industrial growth (Picture: Tata Electric)

Mr Bayman, while admitting a vested interest, expresses concern about any slow down in the process of infrastructural development. "If we are going to build world-class products here I want to be able to get the products to customers on time," he says. "We don't want to be unable to expand fast enough because of the lack of water or power. Development of the infrastructure has to be on the top of everyone's list."

To capture the growing market for consumer items GE has cultivated joint ventures with several of the country's leading companies. In the white goods area it has teamed up with Godrej & Boyce and in lighting with Gujarat Apar. The Wipco-GE Medical Systems subsidiary will manufacture ultrasound equipment and last November a joint venture with Indian Petrochemicals Corporation began production of advanced engineering plastics.

The government is considering a radical proposal to upgrade the country's locomotive fleet. It has offered to upgrade all electrical engines to boost haulage capacity and speed before leasing them back to the government.

Profits are likely to become a politically charged issue

Two green field plants have been established through these joint ventures.

GE Capital is a fully owned subsidiary in India and has established a joint venture with the Housing Development Finance Corporation based in Bombay.

GE will import a broad range of the finance arm's international activities, including auto finance, credit arms and leasing. It will also become an integrated support operation to finance the sale of GE capital equipment. By transferring most of its business divisions to India GE believes it has minimised the effect of possible failure in any single area. "Although the amount of each investment is big in relative terms it is not a bet-your-business investment. If one venture does not make it you are not risking the profitability of the group [in India]," the American says.

Mr Bayman believes that an increasing availability of consumer durables will eventually help fuel the liberalisation process. "The impact of foreign investment will be to improve the standard of living and this has not been felt yet. If we show the benefits we will see the benefits," he says.

GE feels that there is not a shortage of international funds available for investment in India, but that the onus rests with the government to establish boundaries for acceptable risks and rewards.

"I tell Indians not to worry about competing against China for investment. India has to compete against the world with competitive products," Mr Bayman says.

However, the question of what are acceptable profit returns from new private sector industry is likely to become an increasingly politically charged issue at a state and national level. It will certainly emerge as a key issue in several of the coming state elections and GE is aware of its importance.

"We know there are going to be bumps in the road. There will be bumps in the road for the next 10 years but there are also bumps in the road in North America," Mr Bayman says.

Shiraz Sidhva takes a look at the food processing industry

Most promising export sector

India's food-processing industry has attracted more than Rs300bn of domestic and foreign investment in the last two years, more than any other sector except power.

Realising the tremendous export potential and domestic market for processed foods, the government is encouraging strawberry farmers, mushroom growers, tomato paste and fruit juice exporters, aquaculture and deep-sea fishing companies to set up joint ventures or 100 per cent export-oriented companies in different parts of India.

Multinationals such as Pepsi, Lever Brothers, Cadbury's, Kellogg's, Nestlé, McCormick, Wimco, Dalsem Veciep and Haegens of Holland, and C Itoh, have entered the market or shown interest in India's most promising export and domestic industry.

India, with its range of tropical and temperate climates, abundant sunshine, ranks second only to China and Brazil in the production of vegetables and fruits respectively. For a country that produces nearly 80m tonnes of fruits and vegetables, its share in the world market is negligible, at less than one per cent.

India grows some of the most exotic fruits and vegetables in the world

About 0.6 per cent of the country's produce is processed (a poor comparison to Brazil's 70 per cent, Malaysia's 83 per cent or the US 70-80 per cent). About 30 per cent of the total produce is wasted due to inadequate or underutilised food processing capacity, and poor harvesting techniques, causing a loss to the country of Rs30bn per annum.

Realising the tremendous export potential of this relatively new industry (India, until the late 1980s, concentrated on self-sufficiency in food), the government is encouraging the setting up of 100 per cent export-oriented fruit and vegetable processing units.

Changes in the export-import policy and an exchange rate adjustment have helped improve export of fruit and vegetables.

Exports of processed fruits and vegetables including dried and preserved fruits and nuts (excluding cashewnuts) have increased from Rs787.7m in 1988-89 to Rs2.63bn in 1992-93.

The ministry of food processing industries estimates that India has the potential to increase its processed foods exports to Rs60bn in the next five years.

Last year, exports registered a growth of over 30 per cent despite the set-back received by exports to Russia and CIS countries.

Value addition is the key, say officials. For example, mango juice fetches Rs40,000 per tonne, and tomato paste Rs12,000 globally, while the raw fruit costs only Rs1,000 per tonne.

According priority status to the food processing industry, the government has allocated Rs3bn for building up infrastructure by 1995-96. The estimated installed capacity in the fruit and vegetable processing sector has increased to 1.1m tonnes in December 1992 from 950,000 tonnes in 1991. But even the existing capacity is often underutilised by up to 30 per cent.

Other factors that inhibit growth are the high costs of produce (due to low yields) and variations in quality of raw material, attributed to small agricultural holdings; inadequate and expensive storage facilities; increasing transportation and distribution costs; unhygienic slaughter houses; the poor quality of packaging and outdated technology.

Though most food processing industries have been deregulated – with the exception of distillation and brewing of alcoholic drinks, sugar, animal fats and oils – potential investors say government policies lack clarity, and that high tariffs are a great disincentive.

India grows some of the most exotic fruits and vegetables in the world, but many varieties are table quality, and not conducive to exports or processing.

Companies entering the sector have to invest heavily on infrastructure and on importing technology.

The most remarkable growth has been in the area of deep sea fishing, where more than 25 proposals with foreign investment of about $6m have been approved by the government in the last two years, which will add 113 large deep-sea fishing vessels to catch tuna and other fish.

Some of these vessels include on-board processing of fish to produce value-added products. An additional $12m worth of foreign investment proposals have been approved for aquaculture and 100 per cent export-oriented units for fish-processing and marketing.

India's domestic markets have been limited by the fact that Indians prefer to cook and eat fresh produce, not processed foods.

But with increasing urbanisation and the disintegration of the family, a burgeoning middle class is emerging, which could provide considerable potential for processed foods. "The sky is the limit," says an official with a food multi-national. "India could be a world leader in processed foods by the turn of the century if it tries hard enough to get there."